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ABSTRACT

As an approach to teaching small-business location and layout, this publication contains material for teaching one session of a basic course. The sections of the publication are as follows: (1) The Lesson Plan--an outline of the material covered, which may be used as a teaching guide, presented in two columns: an outline of the presentation, and a step-by-step indication of procedure; (2) The Presentation--a subject presentation; (3) The Visual Aids--photographic copies of the set of visual aids that are available for this topic; (4) The Supply Department--materials that may be reproduced locally for distribution to course participants; (5) Cases in Point--short actual small-business management cases that may be used to augment the presentation and to develop discussion, or as the basis for a second session; (6) The Incubator--ideas for stimulating further thought and discussion by the participants. A short bibliography is provided, and field offices of the Small Business Administration are listed. (DB)

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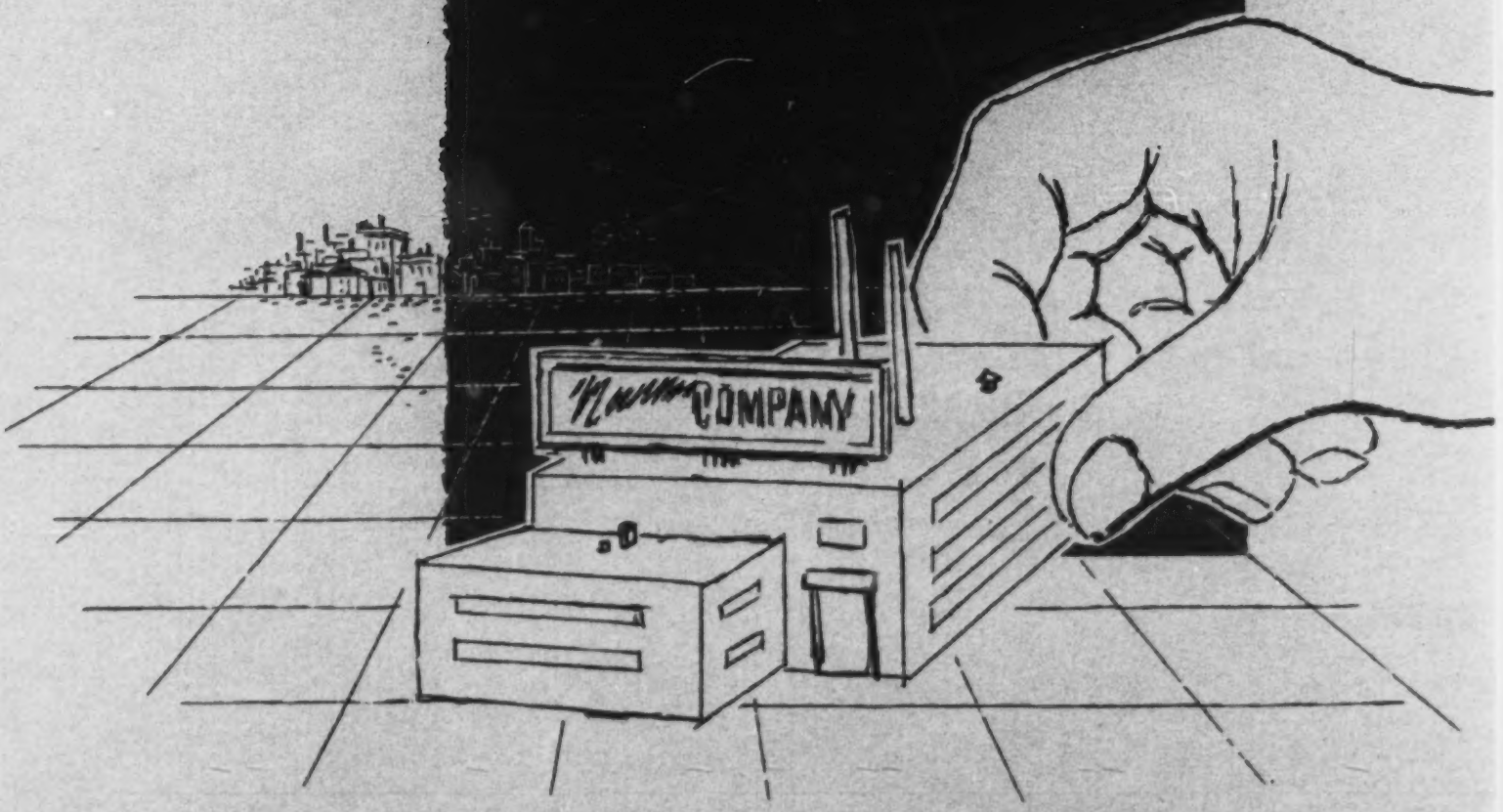
SMALL BUSINESS LOCATION and LAYOUT



ADMINISTRATIVE MANAGEMENT COURSE PROGRAM
Topic 13

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SMALL BUSINESS ADMINISTRATION

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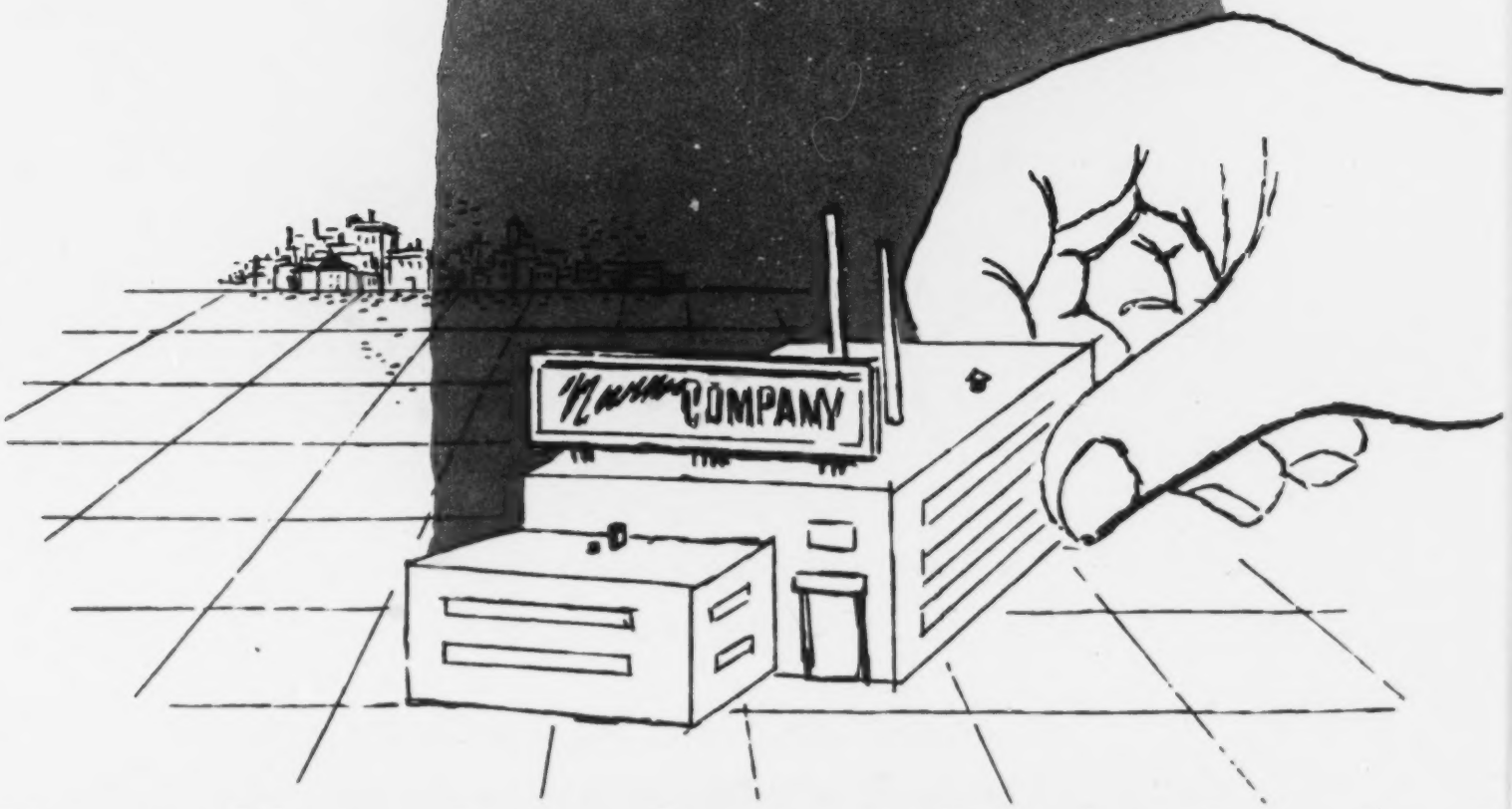
SMALL BUSINESS
LOCATION
and LAYOUT



ADMINISTRATIVE MANAGEMENT COURSE PROGRAM

13

Small Business Administration

Washington, D.C. 20416 1965

SMALL BUSINESS ADMINISTRATION

PROCUREMENT AND MANAGEMENT ASSISTANCE

Irving Maness, *Deputy Administrator*
Gerald S. Fisher, *Assistant Deputy Administrator*

OFFICE OF BUSINESS ASSISTANCE

Anthony S. Stasio, *Director*

BUSINESS MANAGEMENT DEVELOPMENT DIVISION

Wendell O. Metcalf, *Chief*

MANAGEMENT DEVELOPMENT AND TRAINING PROGRAM

George C. Willman, Jr., *Program Manager*

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FOREWORD

The Administrative Management Course Program was developed by the Small Business Administration in cooperation with educational institutions to bring modern management knowledge and techniques to the owners and managers of small businesses. Within 10 years nearly 900 universities, colleges, and local school systems have cosponsored almost 4,000 courses with this Agency. Over 110,000 owners and managers of small businesses have attended these courses. Distributive Education, working through the local school systems, has accounted for about one-third of these totals.

This is an outstanding demonstration of public spirit and service on the part of these hundreds of educational institutions. Yet, there remain many thousands of small-business owners and managers who have never had the opportunity to attend an administrative management course.

A committee on management education, consisting of representatives of the Small Business Administration and the Distributive Education Division of the American Vocational Association, was formed to study ways of meeting the small-business management needs of the small communities and very small businesses in poverty areas. The committee recommended that a series of subject presentations, including lesson plans, lectures, visual aids, case studies, and handout material, be developed to assist in the establishment of administrative management course programs in new locations. Further, it was felt that this material could substantially assist existing management programs, particularly by emphasizing the importance of continuing education for small-business owners and managers, and by assisting the busy instructor with his preparation.

SBA accepted the responsibility for developing a series of subject presentations in the field of administrative management for use by educators and businessmen who teach these management courses. We believe that these presentations will be particularly useful to Distributive Education in the smaller community where library research facilities are limited and equipment for the production of visual aids is not readily available. They will also assist community planning groups in implementing the educational provisions of the Economic Opportunity Act of 1964.

The booklet was prepared for the Management Development and Training Program. I wish to express appreciation to the Richmond Public Schools System for granting leave of absence to John O. Perreault, who drafted the booklet. The final version was prepared by John F. Inderdohnen under the administrative direction of George C. Willman, Jr., Program Manager. Thomas O. Barnes was editorial assistant. Artwork for the cover was prepared by Michael J. Fontana of the Graphics and Design Branch, Office of Administrative Services.

Irving Maness
Deputy Administrator

NOVEMBER 1965.

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*A set of the visual aids is available from the nearest SBA office (see inside back cover). These visuals are 8- by 10-inch colored transparencies for use on overhead projectors.

**Among the materials prepared as "handouts" to participants are several SBA free publications. Current information on the availability of suggested and new SBA publications may be obtained from the nearest SBA office.

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A WORD ABOUT THIS SESSION

This publication, one of a series, is directed toward teaching management skills to the small-business man. When the term "management" is used, it refers to administrative management functions rather than to purely operational features of business. The complete set of subject presentations may be obtained on loan from the nearest Small Business Administration field office (listed on the inside back cover). Single booklets or complete sets may be purchased from the Superintendent of Documents, Washington, D.C., 20402.

This topic, *Small Business Location and Layout*, was prepared to aid in teaching one session of a basic course. It contains sufficient material for a 45- to 60-minute lecture which is usually followed by a discussion period. The management cases on pages 59–62 can be used to extend the session or to form the basis for a second session on the topic.

The lecture is designed to be presented to the businessman in nontechnical language. It is *one* approach to teaching small-business location and layout. Instructors will probably prefer to modify or revise the lecture in order to use their personal background and experience in the subject area. They may also find it preferable to alter the topic to take account of the training or special needs of their class participants.

This topic may be handled by a management consultant, a chamber of commerce official, or other consultant whose training, experience, and interest qualify him. *Guide for Part-Time Instructors, Distributive Education for Adults*, a publication of the U.S. Office of Education, may prove useful to local instructors.

The various sections of the publication are separated by divider sheets of different colors. On the following page, these colors are given and the contents of the sections are briefly described.

Gray—*The Lesson Plan.* An outline of the material covered which may be used as a teaching guide, or as a framework for developing an individualized presentation. The lesson plan contains two columns: the left-hand column is an outline of the presentation; the right is a step-by-step indication of procedure, including chalk-board suggestions, quotations, discussion points, and a keyed guide to the visual aids supplied.

Rust—*The Presentation.* A carefully prepared subject presentation which may be used as written or modified to meet local needs and conditions. It may also be used as a source of information by a person preparing his own lecture.

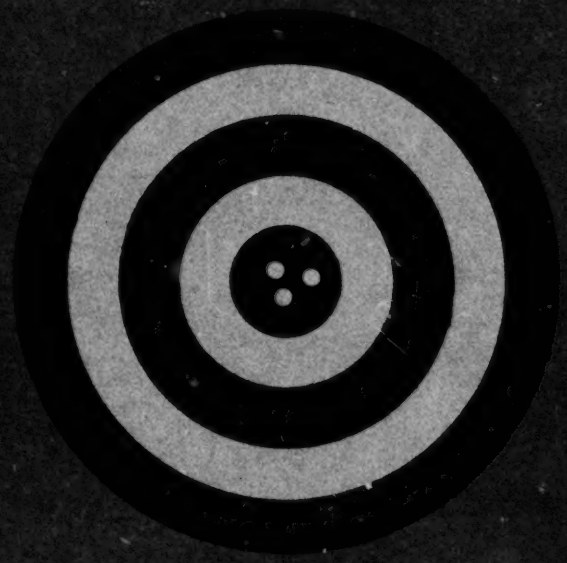
Buff—*The Visual Aids.* Photographic copies of the set of visual aids which are available for this topic. These visuals are 8- by 10-inch colored transparencies prepared for use on overhead projectors. The subject presentation and lesson plan are keyed to the visuals. A set of visuals for each subject in this series may be borrowed from the nearest SBA office.

Green—*The Supply Department.* Materials which may be reproduced locally for distribution to course participants. Your nearest SBA office can furnish information on current availability of SBA free publications, including titles published subsequent to this volume.

Yellow—*Cases in Point.* Short actual small-business management cases which may be used to augment the presentation and to develop discussion, or as the basis for a second session on the same topic.

Blue—*The Incubator.* Ideas for stimulating further thought and discussion by the participants. This material may be reproduced locally for distribtion to course participants. "Assignments" are designed to aid in retention of the subject matter of the session.

NOTE: See back cover for index reference to the divider sheets.



THE LESSON PLAN

A Keeping on Target

Section

Good teaching depends on good planning. A session objective or target must be set. Then the points are selected that will enable one to keep hitting at the heart of that target.

The primary aim of the instructor is to first give the participant the things he MUST KNOW, then the things he SHOULD KNOW. When these two aims have been achieved, the topic can be embellished with the likes to know and helpful to know elements.

The following lesson plan is "on target." If it is used as a guide, it will enable the instructor to emphasize the major points while at the same time he stimulates the participants to grasp the subject.

STIMULATE GROUP BY SERVING AN INSTRUCTIONAL COCKTAIL

RECIPE

Use The Three B's (Bubbles)

- ***Base*** instruction on problems at learners level.
- ***Blend*** instruction with job experience.
- ***Brighten*** instructions with variety of ***illustrations, investigations*** and group ***participation.***

FOUR BASIC STEPS OF INSTRUCTION

Instructing is like selling - -

Selling

1. Approach customer
   - Promptness
   - Put at ease
   - Awaken ***interest***
2. Present merchandise or service
   - Select merchandise to fit need
   - Show one item at a time
   - Demonstrate ***selling points***
3. Have customer take part
   - Get merchandise into customer's hands
   - Let customer "try on" merchandise
   - Answer questions and meet objections
4. Bring sale to close
   - Help customers decide; ask:
     - "which"
     - "for whom"
     - "when"
   - Be sure merchandise fits need
   - Summarize points of care and use
   - Handle mechanics of sale
   - Pave way for return visit

Instructing

1. Prepare the group
   - Start on schedule
   - Put group at ease
   - ***Awaken*** interest
2. Present information
   - Gauge material to needs
   - Present one point at a time
   - ***Show, illustrate, question***
3. Have group participate
   - Get group to ***discuss***
   - Have members ***demonstrate*** or ***use*** ideas
   - Answer questions and correct errors
4. Bring meeting to a close
   - Check on understanding; ask:
     - "why" "how"
     - "when" "what"
     - "where" "who"
   - Be sure group now can use information
   - Summarize "take away" ideas
   - Make a definite conclusion
   - Pave way for next session

How To Deal With "Difficult Customers"

	What To Do
THE "MOUTH"—wants to do all the talking.	Take the play away from him by asking others to comment on his remarks. Deliberately turn to others and ask for their opinions. Avoid looking at him. Tactfully ask him to give someone else a chance, or talk to him in private.

THE "ARGUER"—constantly tries to catch you up.	Keep cool. You can never "win" an argument. Always make him back it up. Ask for evidence. Avoid getting personal. Refer the question to the group and then to him.

THE "MOUSE"—is in every group.	Call him by name and ask him for an opinion. Ask him an easy question he is sure to answer well, then praise him. This person is worthy of your attention.

THE "SO-WHATER"—is disinterested.	Point up something he has done as a good example of the point being stressed. Ask direct questions affecting his work.

LESSON PLAN

TOPIC: Small Business Location and Layout

OBJECTIVES:

To present major points to consider when selecting a good location.
To provide guides to site selection.
To study factors of good exterior and interior layout.

SESSION CONTENT	TIPS AND APPROACHES
I. INTRODUCTION	Use Henry Ford quote or other appropriate introduction. Visual No. 13–1.
A. Site selection methods of small-business men	
B. Reasons for business failures	
II. SELECTING A LOCATION—MAJOR CONSIDERATIONS	
A. Importance of proper and profitable location	Discuss.
B. Considerations in site location	Discuss.
1. Status of the location	Distribute Handout No. 13–1.
2. Expansion opportunities	
3. Other factors to be considered	
III. PROCESS OF SELECTING A LOCATION	
A. Selecting a town, city, or suburban area	Discuss.
1. The hometown and its advantages	Discuss.

2. Economic condition of the town	
3. Status of area's industry	
4. Youth employment	
5. Civic groups' progressiveness	
6. Roads and highways	
B. Selecting an area within the town or city	Visual Nos. 13–2 through 13–7.
1. Traffic to the business	
a. Pedestrians	
b. Mobile clientele	
2. Rent	
3. Community's purchasing power	Discuss.
a. Measuring purchasing power	Write on chalkboard a sample calculation of Total Purchasing Power.
b. Estimating sales potential	Write on chalkboard the example of the food expenditure calculation.
c. Guides available	Handout No. 13–2.
4. Competitors	Discuss.
a. Number	
b. Size and financial strength	
c. Amount of sales	
d. Quality of product	
e. Character	
f. Cooperation	
5. Business groupings	Visual No. 13–8.
a. Desirability of good balance	
b. Business "affinities"	
IV. ACTUAL SITE SELECTION	
A. Basic factors in making a choice	
1. The floor of the building	Discuss.
2. Surroundings	
3. Suitability	Discuss objectionable sites and surroundings.
4. Lease terms	Handout No. 13–3. Discuss factors, pointing out exceptions.
5. Local custom	
6. Climate	
7. Kinds of traffic	

B. Importance of building exteriors	Distribute *Small Marketers Aid* No. 54, "Store Modernization Checklist." Discuss. Visual No. 13–9.
V. INTERIOR LAYOUT AND ARRANGEMENT A. To attract customers 1. Natural and artificial light 2. Ventilation 3. Air conditioning 4. Heat 5. Equipment B. Determining a layout 1. Types of merchandise offered 2. Size of store 3. Building construction 4. Number of customers at peak volume 5. Number of employees 6. Fire, security, and protective measures 7. Services to customers 8. Service on items purchased 9. Overall operating expenses	Visual No. 13–10, Handout No. 13–3.
VI. SOURCES OF LAYOUT ASSISTANCE A. Retail associations B. Store fixture and display equipment services C. Qualified professionals D. Fire marshals and other local government officials	
VII. RENTAL VALUE OF SELLING SPACE A. Determining amount of floor space for each line of goods B. High or low rental value areas	Distribute Handout No. 13–4. Visual No. 13–11.

VIII. SERVICE ESTABLISHMENTS

- A. Merchandising establishment
  1. Provides customer conveniences
  2. Stress attractive appearance of public areas
- B. Processing establishment
  1. Provides production efficiency
  2. Separated from public area
- C. Combination of merchandising and processing

IX. CONCLUSION

SMALL BUSINESS LOCATION AND LAYOUT

INTRODUCTION

A keen observer of human affairs once commented, "Commerce defies every wind, outrides every tempest, and invades every zone." This pretty well describes the general conditions of commerce, but to describe accurately the conditions of an individual business we may be more enlightened by the words of Henry Ford (at one time a small enterpreneur himself):

> Business is never so healthy as when, like a chicken, it must do a certain amount of scratching for what it gets.

BUSINESS LOCATION

"a patch to scratch"

Visual 13–1

The invasion of a zone or the selection of a "patch to scratch" brings us to the topic of business location and layout. Many of you already have a location at which you are doing a thriving business. To you, we say bear with us as we review some basic principles that, like the king's promise in *Hamlet*, are frequently "more honored in the breach than the observance."

A very good SBA publication, *The First Two Years: Problems of Small Firm Growth and Survival*, focuses new light on small-business problems through the

device of case histories of 81 small retail and service firms during the critical first 2 years of their operation. In regard to location of a business, the authors conclude:

> The choice of location is frequently based on such reasons as vacancy of premises, nearness to home, familiarity with the neighborhood, and availability of a business for sale. Too often these reasons appeared to the owners as good and sufficient; they did not bother to make any objective evaluation of the locations' potential as business sites. Failing to do so, some overlooked the fact that the area was declining; that is, losing population or being bypassed because of new highway construction, or that it was unsuited for the type of goods or services offered. In some instances, the business was too specialized, and in others, the same goods or services were already adequately supplied by other firms.

The report goes on to state that within 2 years 40 of the 81 firms under study had closed their doors and that others were "marginal closures." Therefore, even though you may already have a good location, you should be alert to the possible advantages of an alternate or improved one. Applying some of the merchandising principles that we will discuss will help you determine the advantages and disadvantages of various sites.

How may times have you seen vacancy signs on certain buildings? Perhaps a delicatessen was followed by a beauty parlor, and then a cleaning establishment. Or maybe the same kind of business moves through a succession of different managements. In most of these switches, you can be sure that somebody has lost money. Businesses do not switch around merely for the sake of change. If a businessman finds a thriving location, he sticks to it.

This is not to say that all such vacancies are the result of the site being a business jinx. We know that only about 3 percent of business failures in America are location failures, while about 91 percent are the result of poor management. But selecting and making the most of a location is a part of management responsibility and should be guided by management principles. Many small-business men, at least in the beginning years, don't know these principles, or else they choose to ignore them.

And the enterpriser who doesn't know his business, or who chooses to ignore its basic principles, is very likely to become a casualty.

SELECTING A LOCATION—MAJOR CONSIDERATIONS

Proper and profitable location is one of the most important considerations in the establishment of a place of business. The mere fact that a vacancy exists is

not sufficient reason for setting up shop at a given site—in fact, it may be a reason for *not* doing so. Always analyze and investigate before you make any management decision.

When you're considering the location of a business, always take into consideration the market of which it is a part. Here are some questions to ask yourself:

- Is there any possibility that the status of the location will be changed in the foreseeable future?

  COMMENT: As an example, urban renewal programs can affect the location of businesses as well as residential dwellings. Highway building programs, flood control projects, military defense uses, and rezoning are other types of changes that could cause possible changes in the status of a site.

- Does the location offer opportunity for enlargement or expansion?

  COMMENT: You may very likely lease rather than own the location of your shop. Don't forget that you will need extra room as your business grows. If you have too small a facility and one that you cannot enlarge, you will probably handicap your business from realizing its full sales potential and you may have to look for other quarters later, anyway.

- What specific factors should you examine to determine whether a store has a desirable location?

  COMMENT: It would be unrealistic to elaborate on *all* the characteristics of a given location for all types of businesses; however, "Checklist for Locating a Store" (Handout No. 13–1), suggests the factors essential for locating a retail store. (This checklist can be adapted to the needs of other types of businesses.)

PROCESS OF SELECTING A LOCATION

Selecting a location usually involves the following:

- Selection of a town, city, or suburban area.
- Selection of an area within a town.
- Selection of a specific site within an area.

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Selecting Town, City, or Suburban Area

Many businessmen prefer to locate their business in their own hometown or neighborhood. This has both advantages and disadvantages, and it is no guarantee of success or failure. What is more important is your knowledge of the people of the community, and of community development, trends, and needs. Credit may be easier to get on your home ground, provided you've been able to establish good credit references. Friends and acquaintances may give you valuable patronage or word-of-mouth publicity; but few people have a wide enough circle of friends to make a business a success on that basis alone. If you try it, you may wind up losing both your business and your friends.

In selecting a city or town in which to locate, look first at the economic condition of the town or area itself. Is population increasing or decreasing? Is new industry locating in the area; are older companies expanding, or are they moving out?

What about the young people of the community? Are high school graduates finding local employment, or do they have to go elsewhere for opportunity? Are local civic groups progressive? Are roads and access highways well developed and maintained?

It is better to locate in a growing community. "Business is a stream that the businessman must navigate. But you can't navigate a stream that has already dried up."

There are so many of these factors which enter into your initial thinking about a location that we couldn't possibly talk about all of them in the limited time we have. However, we would recommend that each of you use this checklist (Handout 13–1), adapting it to your own situation, to rate any current or contemplated location. Here, remember that we are looking at the total community rather than the specific site.

Selecting an Area Within the Town or City

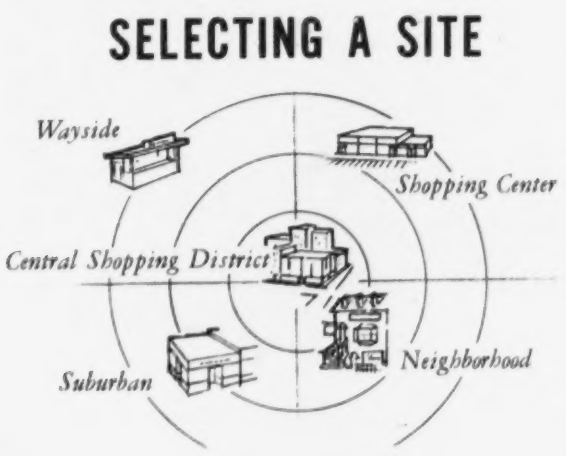
After deciding to locate in a given community, your next decision will be to select an area within it.

This, of course, will involve a number of personal and economic factors; but perhaps the major factor is the kind of business you're in and the amount and kind of traffic you need to sustain it. Some businesses depend on foot traffic and must be located within walking distance of the people they would serve. Typically these might include:

- Neighborhood grocery and confectionery stores
- Neighborhood drug stores
- Barber shops and other personal service shops

Other businesses may cater to a mobile clientele and can be located some distance from the home ground of the customer.

Of course, cost factors such as rent, transportation, and the like enter into the picture. These are especially important if you are paying a high occupancy cost for a site that is really not required by the nature of your business.



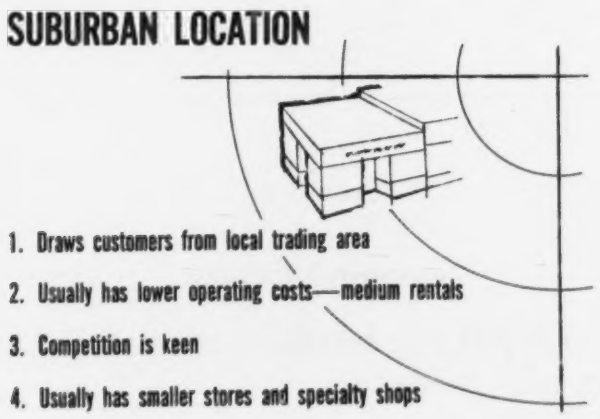
Visual 13–2

Several different kinds of locations are available within most towns; each kind may have certain advantages or disadvantages for your type of business. (Visual No. 13–2 shows basic types of shopping area locations. Visuals 13–2 through 13–7 present the individual characteristics of the different types.)

Characteristics of the shopping areas are as follows:

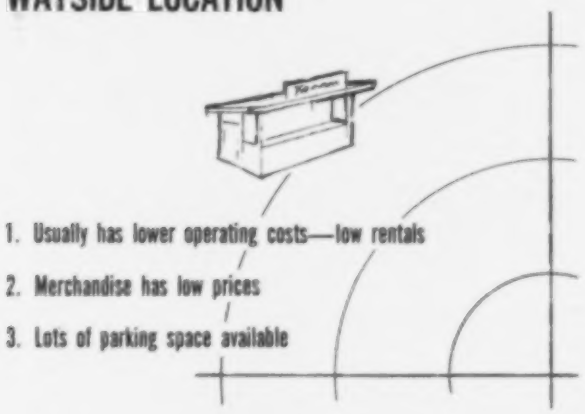
Suburban Location

1. Draws customers from local trading area.
2. Usually has lower operating costs, medium rentals.


SUBURBAN LOCATION
1. Draws customers from local trading area
2. Usually has lower operating costs—medium rentals
3. Competition is keen
4. Usually has smaller stores and specialty shops

Visual 13–3

3. Usually is an area of keen competition.
4. Usually has smaller stores and specialty shops.


WAYSIDE LOCATION
1. Usually has lower operating costs—low rentals
2. Merchandise has low prices
3. Lots of parking space available

Visual 13–4

Wayside Location

1. Usually has lower operating costs, low rentals.
2. Merchandise low priced.
3. Extensive parking space available.

SHOPPING CENTER
1. Has modern exteriors and interiors, medium to high rentals
2. Permits group sales promotion
3. Is a good location for branch stores
4. Offers parking facilities

Visual 13–5

Shopping Center

1. Has modern exteriors and interiors, medium to high rentals.
2. Permits group sales promotions.
3. Usually is a good location for branch stores.
4. Offers parking facilities.

CENTRAL SHOPPING DISTRICT
1. Draws customers from entire trading area
2. Usually has high operating costs—high rentals
3. Competition is keen
4. Larger stores prevail

Visual 13–6

Central Shopping District

1. Draws customers from entire trading area.
2. Usually has high operating costs, high rentals.
3. Usually is an area of keen competition.
4. Has mostly larger stores.

NEIGHBORHOOD SHOPPING AREA
1. Draws customers from nearby residences
2. Usually has lower operating costs—low rentals
3. Features personalized service
4. Usually consists of small stores—annual sales $50,000 or less

Visual 13–7

Neighborhood Shopping Area

1. Draws customers from nearby residences.
2. Usually has lower operating costs, low rentals.
3. Features personalized service.
4. Usually consists of small stores (annual sales, $50,000 or less).

Other Factors To Consider

Other factors regarding selection of a district within a community have to do with purchasing power. A large population usually also means a large purchasing power. However, we must look beyond the mass purchasing power of a community to three important considerations regarding that purchasing power.

1. Where does it come from?
2. How big is it?
3. Where does it go?

Your answers to the first question will indicate whether the district has stable industry with continuing employment and with growth prospects. The second answer will help you decide the price lines you should handle and what your approximate share of the consumer's buying dollars should be. The third answer will help you determine whether or not you can create or corner enough business to keep you solvent and give you the chance for the return and growth that you expect.

Measures of Purchasing Power

You can make certain measures of the purchasing power in an area by a few simple calculations:

1. Start with the average disposable family income—say $5,200. (This you might learn from the local public utilities people or perhaps from City Hall.)
2. Multiply average family income by number of families—say 1,200 (determined from number of electric or gas connections, etc.).
3. $5,200 × 1,200 = $6,240,000 = Total Purchasing Power.

Suppose that you are interested in the grocery line. The national average for food purchases is 22 percent of personal disposable income. Then:

22 percent of $6,240,000 = $1,372,800 = Annual Food Expenditure.

From a local food dealers association or other similar report, you learn that retail grocery sales in the district amounted to $1,093,300 during the previous fiscal year.

This means that without considering competition that may also move in, the district has an additional annual potential of $279,500 for a new food market. By contrasting this potential with what it would cost you to do business each year (rents, salaries, promotion, and so forth), you can determine whether the area offers sufficient potential.

Other Guides Available

In any such calculations, you will want to check your own conclusions and figures with published statistics. The Federal Government has a number of sources (Handout No. 13–2), as do most States and many local communities. And there are numerous commercially published data (see Bibliography).

What About Competition?

The presence or lack of competitive business in the district will also have to be taken into consideration. Lack of competition may seem like an invitation into a harem; but it may turn out to be a self-imposed stay on a desert island. In considering competition you should ask:

How many competitors are there? Big population + big buying power + few competitors = (usually) a need for your firm.

What are the sizes and financial strength of competitors? Size indicates success potential, but it may also put a smaller firm at a competitive disadvantage.

What is the amount of your competitors' sales?

What is the quality of product or merchandise or service lines offered by your competition?

What does the economic level of the area indicate that the quality grade demand for your products will be?

What is the character of the competition? Is it one of healthy cooperation or cut-throat, devil-take-the-hindmost, cold war?

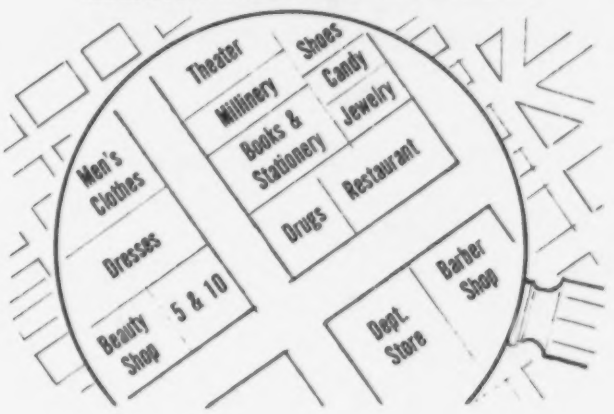
Even where there is an atmosphere of friendly coexistence or cooperation, it would be well to remember that your competitor has the same merchant instinct that makes you tick. He is always on the alert to capture a larger segment of the potential market.

Business Groupings

A "live" site for most retail or personal service firms has a good balance of other types of business. Certain businesses are said to have affinities for each other. In other words, they draw mutually beneficial trade into the district.

A drug store may be on the opposite corner from a department store on a busy Main Street; a book and stationery store or a record shop may be next to the drug store; and a beauty shop may be around the corner from a dress shop.

LOCATION PROBLEMS: AFFINITIES



Visual 13–8

Respect the fact that such "live" sites involve some degree of competition; but don't shy away from it. Often, as we have seen, competition tends to attract business. People frequently prefer to do business where they have an obvious choice to begin with rather than to shop in out-of-the-way, one-of-a-kind locations.

ACTUAL SITE SELECTION

Additional location factors might include accessibility of site, adequacy of transportation facilities, parking, and possible cost of occupancy. In each instance, you will want to ask:

- What do I need?
- What is available?
- What can I afford?

Upper-floor or basement locations: Some businesses can be operated just as well from an office or showroom located above or below street level. Various brokerage firms, real-estate offices, and optical, dental, and surgical supply firms are in this category. Rents for such locations generally run from 40 to 50 percent lower than they do for street-level spaces. In general, off-street locations can be used where retail merchandising (in the usual sense) is a minor part of the operation or not a part at all. Where the store offers unusual services on particularly attractive merchandise (spending a greater portion of operating expense on promotion), such locations may be acceptable. Typical are furriers, jewelers, locksmiths, low-price clothing dealers, and watch, radio, and TV repair shops. Certain types of restaurants, coffee houses, and night clubs have found such locations advantageous because of an atmosphere of privacy or intimacy they may convey. In general, an above-street level carries greater prestige than a basement location.

Objectionable sites: As a guiding principle, the small-business man should seek surroundings that enhance the business itself. Parks, attractive buildings, wide and well-lighted streets, and compatible businesses are desirable neighbors.

Avoid as much as you can:

- Old, worn, or deteriorating buildings.
- A low-level location that is overshadowed by or lost in a forest of tall buildings.
- Dirty locations with smoke, dust, noise, or disagreeable odors.
- Poor sidewalks or streets that keep customers away.
- Obstacle-course entrances, such as step-up doors, winding passageways, or ill-lighted halls.

Still other factors must be studied. Is the proposed building suitable for the type of business you have, or can it be modified? (If so, at whose expense? Yours or the owner's?)

What are the terms of the lease—flat rate or a percentage lease based on volume of sales? How does the rent compare with what you had planned to pay or with occupancy ratios for your trade line? A competent attorney should be called in *before* you sign any lease. You will usually find that *preventive medicine* is more economical than later efforts to cure an ill you never should have contracted in the first place.

Although the elements involved in selecting a location may seem complicated, you must give them careful consideration. Have you ever noticed that the big chain stores usually seem to select profitable locations? They make a painstaking

survey such as we have described before selecting any retail outlet location. The more complete you make your survey, the better are your chances for success.

Service establishments—such as barbershops, drycleaners, and real-estate offices—usually do well on inside locations. So do retail stores catering to patrons who shop around for baked goods, hobby crafts, gifts, and hardware items.

Drug stores, cigar stores, and stores selling convenience items warrant and are usually willing to pay a premium occupancy rate for a corner location.

Here are some very general "cost of occupancy" factors related to rents which may help you arrive at answers to your questions (Handout No. 13–3):

High Rent	*Low Rent*
1. High value of merchandise in proportion to bulk	1. Low value of merchandise in proportion to bulk
2. Window display highly important	2. Large amount of floor space for interior display
3. High rate of turnover*	3. Low rate of turnover
4. Low gross margin per item*	4. High gross margin per item
5. Pickup or convenience goods sold	5. Shopping lines sold in addition
6. Appeal to transient trade	6. Established clientele
7. Little newspaper advertising	7. Much advertising and soliciting
8. Price and convenience stressed	8. Uses features of various kinds to attract customers
9. Low overhead	9. High overhead

*Some exceptions would be: camera shops, confectioneries, and jewelry stores.

Also, there are such elements as local custom, climate, and traffic.

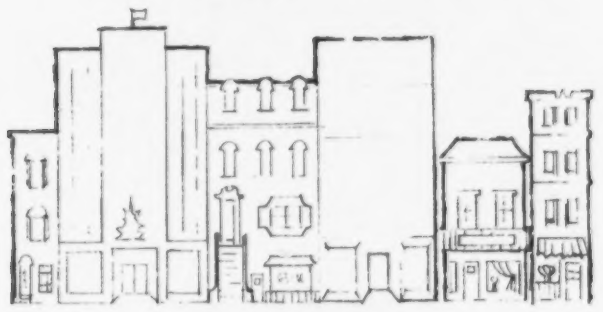
- Do shoppers tend to shop on one side of the street rather than on both sides?
- According to climatic conditions which are the norm in the area, would you be better off on the sunny or the shady side of the street?
- Is there a man and woman zone pattern? Are you locating on the side of the street or in the district frequented by the clientele to whom you are catering?
- Do you need a corner location with traffic and display possibilities on two sides, or can you get by with an inside location?

Building Exteriors

Much of what we have discussed on store location has stressed site location. We have assumed that you want to find the most practical place to locate your store in order to sell a satisfactory amount of your merchandise or services.

In practice, especially if you must relocate an existing business, you may be searching for a vacant store suited to your needs. In this case, you will be concerned with a favorable location and a favorable building, or store space in a shopping area. In either case, unless the building is brand new, a certain amount of remodeling may be required. (Distribute *Small Marketers Aid* No. 54, "Store Modernization Checklist.")

BUILDING FRONTS



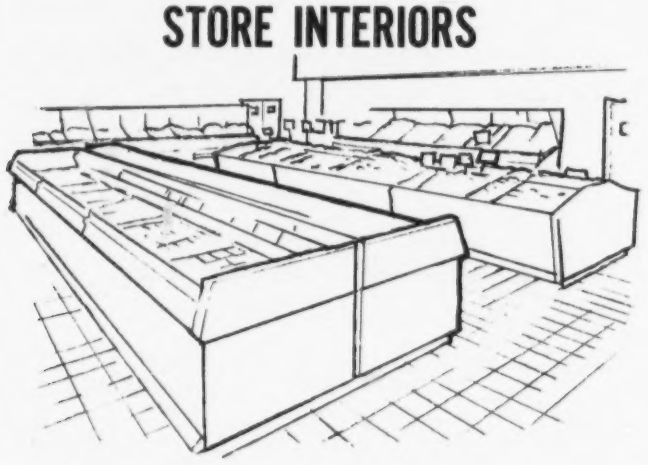
Visual 13–9

You must also consider whether the store front and show windows are suitable to your merchandising. The complete character of a building can be changed by facelifting. An example is a variety store housed in a 50-year-old building on Main Street. A new front of cream-colored, enameled steel tile was veneered over the old brick facade. The roof line of the face was squared off by framing and having upper story windows blocked out in the front. Large plate glass show windows were added, framed in contrasting colored tiles. The store name in bright-red enameled metal letters was placed at an angle across the upper stories. The store is now as modern and attractive as any on Main Street. Incidentally, all of the merchants on Main Street in this community are modernizing their store fronts to revive their business and compete with outlying shopping centers.

Store fronts will vary: a men's clothing store may have an "Old English" face of stone and oak beams to reflect the quality lines of its imported woolens and other items; a modern variety store may have an enameled front; and a furniture store may assume a New England colonial front. These and other imaginative approaches build merchandising images and pay dividends.

INTERIOR LAYOUT AND ARRANGEMENT

When designing the interior layout of a store, always keep in mind that the major function of the business is to sell merchandise effectively. Your displays must be inviting enough to steer your prospective customers to look at as many of your merchandise items as possible.



Visual 13–10

To Attract Customers

The layout should be based on factors that attract customers and help efficient operation: Effective use of natural and artificial light, ventilation, air conditioning, heat, and equipment. (Ease in cleaning and maintaining both the premises and the stock must not be overlooked, either.)

Determining a Layout

In determining a layout, consider:

Type of merchandise offered

Size of store

Building construction

Number of customers expected at peak volume

Number of employees and facilities for them

Fire, security, and protective measures

Services to customers, including restrooms, fittingrooms, and cafeteria or lunchroom

Services for appliances or other items

Operating expenses for the whole store and for individual sections of it.

SOURCES OF LAYOUT ASSISTANCE

Retail associations offer store planning services to their members. They have wide experience in effective planning for stores in their fields, and their help can guard against costly mistakes in building, remodeling, and modernizing.

Stores fixture and display equipment services also offer help, as do large manufacturers of such equipment as cash registers or accounting equipment.

Store layout, equipment, interior design, and finish are not cheap. They are a dominant influence on the success of the business. They have a degree of permanence. We strongly urge you to get a professional to oversee this operation.

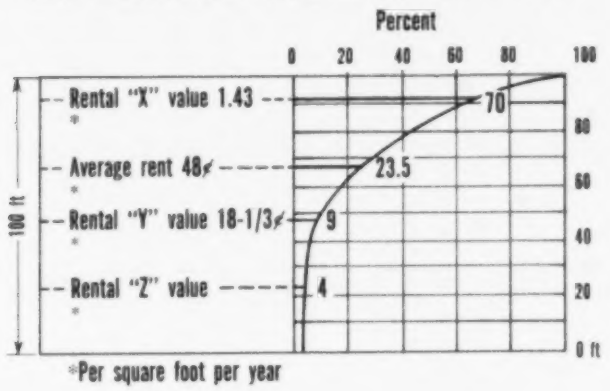
Besides the arrangement of equipment, you should remember that attractive floors, sound-conditioned ceilings, and proper color schemes for walls and woodwork are important for achieving a pleasant interior.

An often overlooked matter is lighting. Subdued lighting is effective in churches and funeral parlors. For stores and places of business, a high lighting level is desirable. Check with your power company lighting specialist; usually he can give you useful advice on modern practices in this area.

Clear your plans with your community fire marshal to make sure that your new store will conform to the requirements for your location, especially for number and location of sprinklers, fire doors, and exits. This assures you additional protection, and you may be able to reduce your insurance premiums.

RENTAL VALUE OF SELLING SPACE

The front part of a store (roughly 25 percent of the store area) may average more than two-thirds of the store's total annual sales. (Visual 13–11) You can calculate rental value figures for your own business, and then use them and sales income rates on merchandise to determine how much floor space you can allow each line of goods. In addition to the amount of space, these other costs will help you to determine where the merchandise should be placed—that is, in high or low rental price areas.



Visual 13–11

Some retailers believe that placing staple items at the rear of the store will cause customers to pass displays of high-margin goods from which they will make impulse purchases. This is sometimes true—for instance, in certain types of firms such as grocery stores, where customers typically purchase a number of items at one time—but it is not an infallible rule. Some customers with routine needs resent being obliged to go the full length of a store to get what they want. In fact, they may refuse to do so and simply seek another store where these goods are up front. (Distribute Handout No. 13–4.)

SERVICE ESTABLISHMENTS

There is a distinction between the merchandising type of service establishment and the processing type. The merchandising type includes such businesses as barber shops, beauty parlors, and tourist courts. This group should stress customer conveniences and attractive appearance of public areas.

The processing type should stress factors which provide production efficiency. This group includes laundering and cleaning establishments, tailors, letter and offset printers, and the like. These operations are somewhat akin to manufacturing and are governed by modified manufacturing layout standards. In general, the public area or store should be separated from the work or processing area. This makes it possible to make an effective display space in the public area (the smaller section) and an efficient work and storage space of the rest.

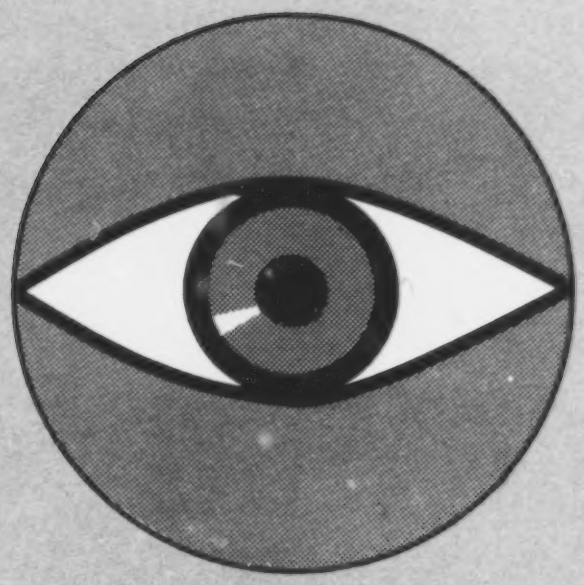
Frequently, you see small service-type businesses that are all mixed up. In a garden shop, for instance, the customer may have to work his way around a half-dozen pieces of dirty equipment being repaired in order to get a look at the one new mower that is on display. The same thing might hold true in radio and TV repair shops, appliance stores, and automotive accessory and repair shops.

In the separated work area, it is desirable to determine if the activity is basically (1) a job type, or (2) a continuous-process type, and to make the layout accordingly. Since these layouts vary considerably according to trades, you will probably find it most practical to get typical layout charts from trade associations or suppliers and then adapt them to the space you have available.

CONCLUSION

One of the most important decisions a businessman must make is where to locate his business. The town, the area within the town, and the actual site are usually critical to the success of a business.

We have discussed influencing factors such as the town's growth potential, its population, and its buying power and product preferences. We have shown the importance of using surveys to discover the area of a community most likely to support the kind of store you have in mind. We have made suggestions on appearance and layout of stores. We have discussed factors which will affect earnings. We have talked of the benefits of competition and neighbors. And we have emphasized the need for managerial skills that you must apply in your decisions to assure success for your new or modernized establishment. We have, in short, covered the problems and factors. Now the doing is your task; and we hope you will have benefitted from this presentation. Good luck!



THE VISUAL AIDS

A What to Show

Section

The old Chinese proverb **"One Soe Worth Thousand Say"** is certainly borne out by experience in the fields of education and training at all levels.

The instructor who helps his participants visualize subject matter and ideas not only holds the group interest--he also stimulates thoughtful consideration and retention of the topic.

This section contains samples of visuals that are available for this subject. Each has been carefully coded and "keyed" into **The Lesson Plan** as outlined in this manual.

USE OF VISUAL AIDS

WHAT TO USE	WHEN AND HOW TO USE
Chalkboard	Study and plan before a meeting what to put on the board and where to put it. Use it to present sketches, diagrams, outlines, definitions, key words, directions, record of class contributions, and summaries. Suit material to board space. Write plainly and quickly. Keep wording simple. Stand at one side of board while referring to material. Talk to the group, not to the board. Erase material no longer needed.
Posters, Charts, and Diagrams	To arouse interest and attract attention; to show relationships and trends; to inspire group. Use device large enough to be seen. Post where everyone can see. Present at right time. Discuss information illustrated.
Hand-Out Materials	To present information uniform in character and as a guide to material covered; emphasize key points; arouse interest and discussion; review or summarize discussions; and serve as permanent reference. Select to serve a definite purpose. Introduce at right time. Distribute in manner to convey its importance. Direct members how to use.
Films and Film Strips	Present an overall view; introduce a new subject; emphasize specific aspects of a subject; arouse interest; summarize. Select carefully to relate to the discussion and plan presentation. Arrange room and equipment for showing. Alert the audience for the showing or what will be seen. Run the film. Discuss the subject matter and summarize.
Samples, Forms, and Exhibits	Keep subject matter practical; show development of a process; increase understanding. Select only enough to illustrate, not confuse. Pass around if necessary. Take time to present clearly. Comment when presenting.
Pedestal Chart	A pad of newsprint sheets or similar paper may be used for the same purposes as the chalkboard. Material recorded with chalk or crayon may be saved for future reference by the group or by the instructor.

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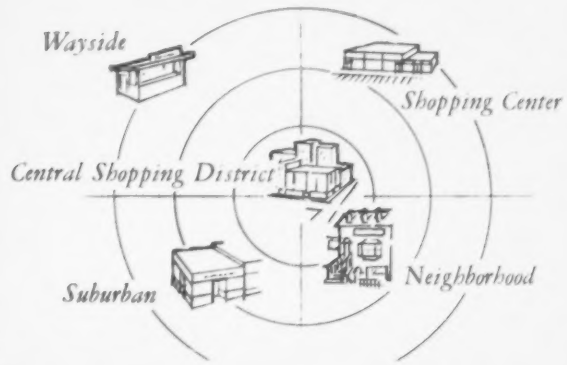
OVERHEAD PROJECTUALS

BUSINESS LOCATION

"a patch to scratch"

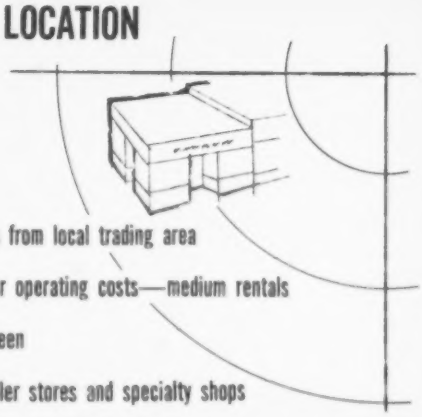
(1)

SELECTING A SITE



(2)

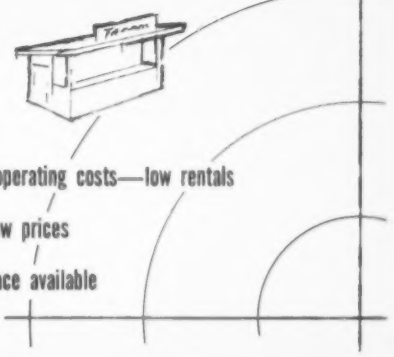
SUBURBAN LOCATION



1. Draws customers from local trading area
2. Usually has lower operating costs—medium rentals
3. Competition is keen
4. Usually has smaller stores and specialty shops

(3)

WAYSIDE LOCATION



1. Usually has lower operating costs—low rentals
2. Merchandise has low prices
3. Lots of parking space available

(4)

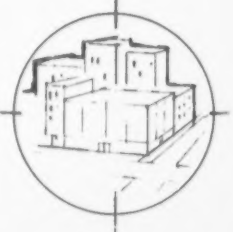
SHOPPING CENTER

1. Has modern exteriors and interiors, medium to high rentals
2. Permits group sales promotion
3. Is a good location for branch stores
4. Offers parking facilities

(5)

CENTRAL SHOPPING DISTRICT

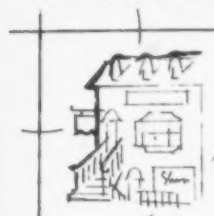
1. Draws customers from entire trading area
2. Usually has high operating costs—high rentals
3. Competition is keen
4. Larger stores prevail



(6)

OVERHEAD PROJECTUALS

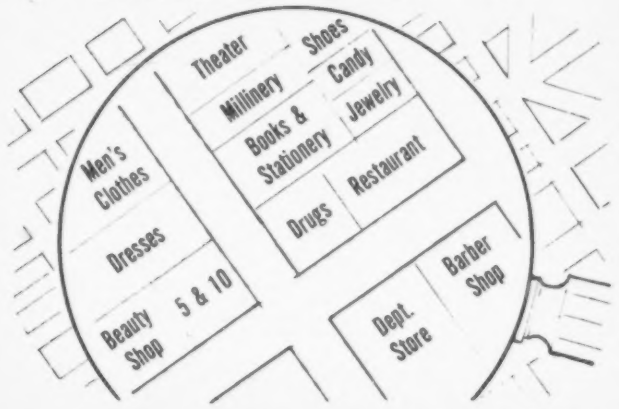
NEIGHBORHOOD SHOPPING AREA



1. Draws customers from nearby residences
2. Usually has lower operating costs—low rentals
3. Features personalized service
4. Usually consists of small stores—annual sales $50,000 or less

7

LOCATION PROBLEMS: AFFINITIES

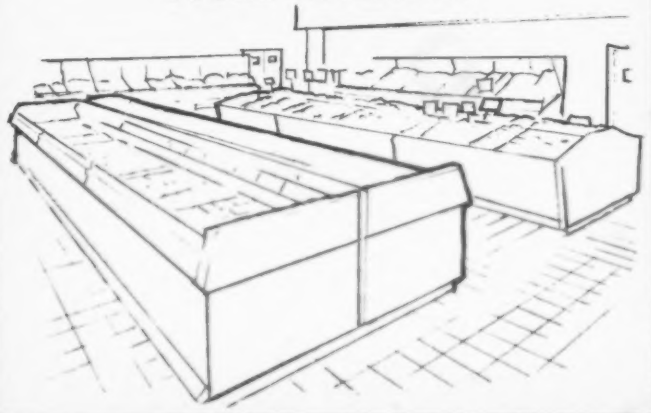


8

BUILDING FRONTS

3

STORE INTERIORS



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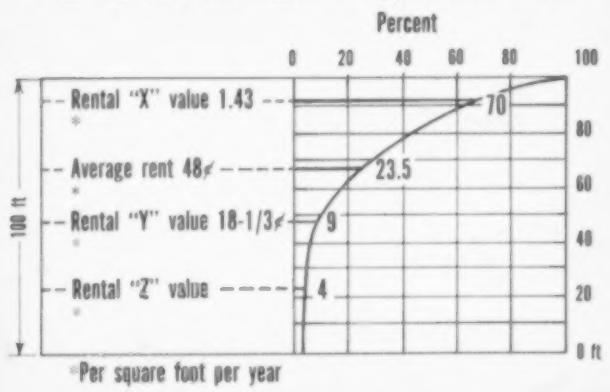
RENT CALCULATIONS USING THE (r) FACTOR CURVE



*Per square foot per year

11

THE SUPPLY DEPARTMENT

A Resource Materials and Participant Handout

Section

It is generally conceded that interest intensifies in situations where people have a chance "to participate" by such means as open discussion and buzz sessions. The materials in this section should prove useful in this kind of activity. These materials may be reproduced locally.

It is also desirable to provide participants with "take away" materials if they are pertinent and concise. Accordingly, appropriate Management Aids, Small Marketers Aids, and Management Research Summaries are included in this section. Current information on the availability of suggested and new SBA publications may be obtained from the nearest SBA office.

CHECKLIST FOR LOCATING A STORE*

I. City or town
  A. Economic considerations
    1. Industry
      a. Farming
      b. Manufacturing
      c. Trading
    2. Trend
      a. Highly satisfactory
      b. Growing
      c. Stationary
      d. Declining
    3. Permanency
      a. Old and well established
      b. Old and reviving
      c. New and promising
      d. Recent and uncertain
    4. Diversification
      a. Many and varied lines
      b. Many of the same type
      c. Few varied lines
      d. Dependent on one industry
    5. Stability
      a. Constant
      b. Satisfactory
      c. Average
      d. Subject to wide fluctuations
    6. Seasonality
      a. Little or no seasonal change
      b. Mild seasonal change
      c. Periodical—every few years
      d. Highly seasonal in nature
    7. Future
      a. Most promising
      b. Satisfactory
      c. Uncertain
      d. Poor outlook
  B. Population
    1. Income distribution
      a. Mostly wealthy
      b. Well distributed
      c. Mostly middle income
      d. Poor
    2. Trend
      a. Growing
      b. Large and stable
      c. Small and stable
      d. Declining
    3. Living status
      a. Own homes
      b. Pay substantial rent
      c. Pay moderate rent
      d. Pay low rent
  C. Competition
    1. Number of competing stores
      a. Few
      b. Average
      c. Many
      d. Too many
    2. Type of management
      a. Not progressive
      b. Average
      c. Above average
      d. Alert and progressive
    3. Presence of chains
      a. No chains
      b. Few chains
      c. Average number
      d. Many well established
    4. Type of competing stores
      a. Unattractive
      b. Average

(*continued on next page*)

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* Adapted from Verne A. Bunn, *Buying and Selling a Small Business.* University of Wichita (Kans.), 1963. (Prepared under the Management Research Grant Program of the Small Business Administration.)

c. Old and well established
d. Are many people buying out of community?

D. The town as a place to live
1. Character of the city
a. Are homes neat and clean or run-down and shabby?
b. Are lawns, parks, streets, etc., neat, modern, attractive?
c. Adequate facilities available
1. Banking
2. Transportation
3. Professional services
4. Utilities
2. Facilities and climate
a. Schools
b. Churches
c. Amusement centers
d. Medical and dental services
e. Climate

II. The actual site
A. Competition
1. Number of independent stores of same kind as yours
a. Same block
b. Same side of street
c. Across street
2. Number of chain stores
a. Same block
b. Same side of street
c. Across street
3. Kind of stores next door
4. Number of vacancies
a. Same side of street
b. Across street
c. Next door
5. Dollar sales of nearest competitor

B. Traffic flow
1. Sex of pedestrians
2. Age of pedestrians
3. Destination of pedestrians
4. Number of passers-by
5. Automobile traffic count
6. Peak hours of traffic flow
7. Percent location of site

C. Transportation
1. Transfer points
2. Highway
3. Kind (bus, streetcar, auto, railway)

D. Parking facilities
1. Large and convenient
2. Large enough but not convenient
3. Convenient but too small
4. Completely inadequate

E. Side of street

F. Plant
1. Frontage—in feet
2. Depth—in feet
3. Shape of building
4. Condition
5. Heat—type; air conditioning
6. Light
7. Display space
8. Back entrance
9. Front entrance
10. Display windows

G. Corner location—if not, what is it?

H. Unfavorable characteristics
1. Fire hazards
2. Cemetery
3. Hospital
4. Industry
5. Relief office
6. Undertaker
7. Vacant lot—no parking possibilities
8. Garages
9. Playground
10. Smoke, dust, odors
11. Poor sidewalks and pavement
12. Unsightly neighborhood buildings

I. Professional men in block
1. Medical doctors
2. Dentists
3. Lawyers
4. Veterinarians
5. Others

J. History of the site

U.S. GOVERNMENT SOURCES OF STATISTICAL INFORMATION

Per capita or per family income . . . . . .
(Bureau of the Census, Department of Commerce)

Employment and payrolls . . . . . .
(Bureau of Labor Statistics, Department of Labor)

Retail and wholesale sales . . . . . .
(Census of Retail and Wholesale Trades, Department of Commerce)

Value of products manufactured . . . . . .
(Census of Manufacturing, Department of Commerce)

Money in circulation . . . . . .
(Federal Reserve Bulletin, Federal Reserve System)

Bank debits . . . . . .
(Survey of Current Business, Department of Commerce)

Number of Income Tax returns filed . . . . . .
(Internal Revenue Service, Department of the Treasury)

Where should you place your
MERCHANDISE?

•

IMPULSE GOODS

•

CONVENIENCE GOODS

•

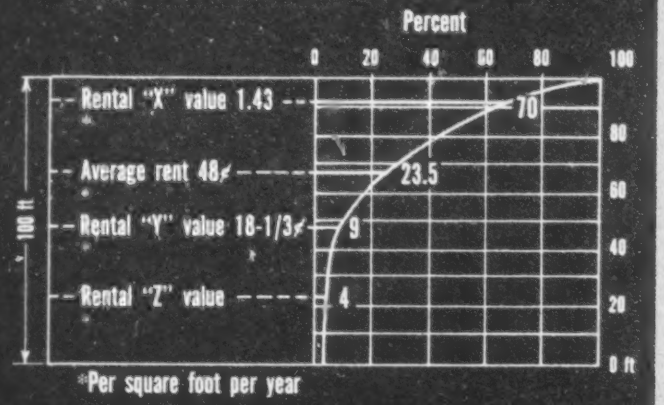
SHOPPING GOODS

•

LUXURY GOODS

RENT CALCULATIONS
using the
(r) FACTOR CURVE

RENT CALCULATIONS USING THE (r) FACTOR CURVE



*Per square foot per year

SMALL BUSINESS ADMINISTRATION

Focal Points on

LOCATION
AND
LAYOUT

This page and the following illustrate a two-fold leaflet which summarizes the subject presentation. The leaflet is available in quantity from the nearest Small Business Administration office for distribution to participants in SBA-cosponsored administrative management courses.

NEIGHBORHOOD SHOP

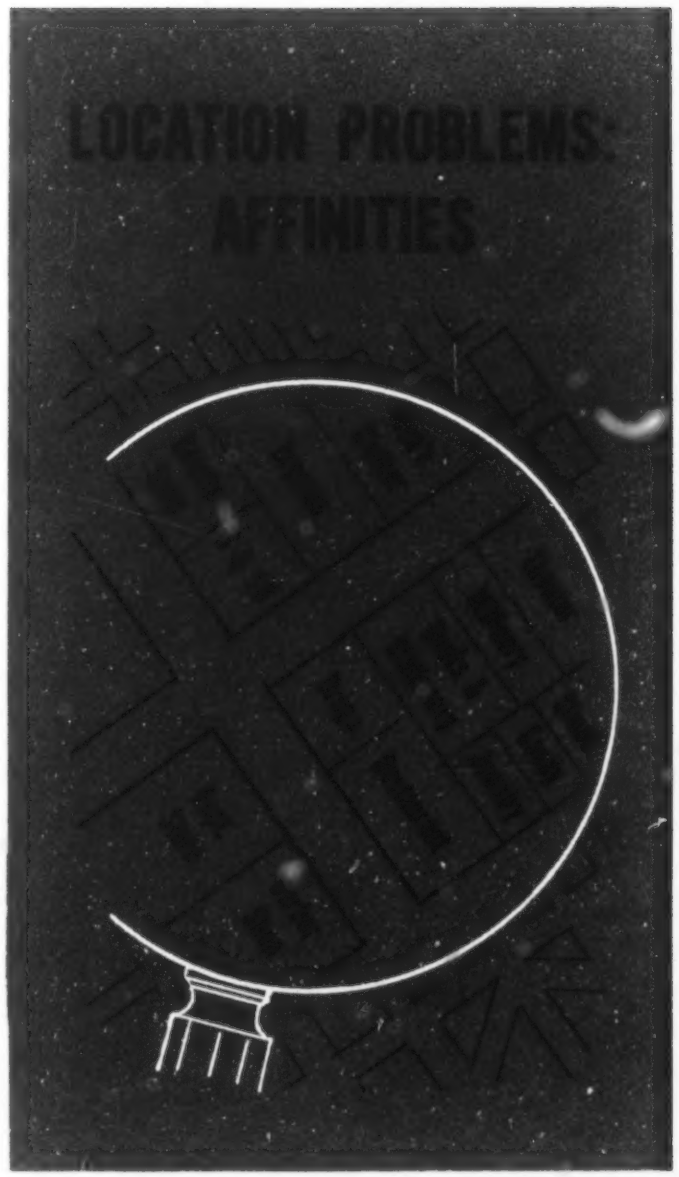
1. Draws from nearby residences. (Light traffic)
2. Low rental.
3. Low operating costs.
4. Small stores.

WAYSIDE SHOP

1. Low rentals.
2. Low operating cost.
3. Low prices.
4. Lots of parking space.

SUBURBAN SHOP

1. Draws from local trading area.
2. Low operating cost.
3. Medium rentals.
4. Keen competition.
5. Small stores and specialty shops.



"COST OF OCCUPANCY" FACTORS RELATED TO RENTS*

High Rent	*Low Rent*
1. High value of merchandise in proportion to bulk	1. Low value of merchandise in proportion to bulk
2. Window display highly important	2. Large amount of floor space for interior display
3. High rate of turnover*	3. Low rate of turnover
4. Low gross margin per item*	4. High gross margin per item
5. Pickup or convenience goods sold	5. Shopping lines sold in addition
6. Appeal to transient trade	6. Established clientele
7. Little newspaper advertising	7. Much advertising and soliciting
8. Price and convenience stressed	8. Uses features of various kinds to attract customers
9. Low overhead	9. High overhead

*Some exceptions would be: camera shops, confectioneries, and jewelry stores.

*Based on *Selecting a Store Location*, Economic Series No. 56, U.S. Department of Commerce.

Handout No. 13–3

CLASSIFICATION AND ARRANGEMENT OF MERCHANDISE IN SMALL RETAIL STORES

I. IMPULSE GOODS

Bought:

As a result of attractive "visual merchandising" displays

Should Be Placed:

Near entrance in small store—on main aisle in larger stores

II. CONVENIENCE GOODS

Bought:

With frequency and in small quantities

Should Be Placed:

In easily accessible feature locations along main aisle

III. NECESSITIES OR STAPLE GOODS

Bought:

Because of an actual need

Should Usually Be Placed:

To the rear of one-level stores—on upper floor of multilevel stores (not an infallible rule)

IV. UTILITY GOODS

Bought:

For home use—brooms, dust pans, etc.

Should Be Placed:

As impulse items up front or along main aisle

V. LUXURY AND MAJOR EXPENSE ITEMS

Bought:

After careful planning and considerable "shopping around"

Should Be Placed:

At some distance from entrance

Handout No. 13–4

SMALL BUSINESS ADMINISTRATION

SMALL MARKETERS AIDS No. 54

Washington 25, D. C.

STORE MODERNIZATION CHECK LIST

By *Nelson A. Miller*, Chief, Marketing Intelligence Division, U. S. Department of Commerce, Washington, D. C.

How inviting does your store really look? Perhaps, before answering that question, you should make a "competitor-test." Look at your store as if you were a competitor, and eye it critically. Is the equipment and layout outmoded for doing a maximum job of displaying and moving merchandise? Is the paint peeling? Is the door lettering becoming unreadable? Are the lights so dim that you have trouble seeing the merchandise? Is the furniture shabby? Are the fixtures obsolete?

If you have to say Yes to several or all of these questions, and if your critical survey has unearthed other examples of store deterioration, you have a job on your hands. That job is to determine whether the face of the store and the interior arrangement and equipment combine to make up the store you want to show to the world -- the store that will attract and handle more business.

Search for a New Look. The physical face, of course, is more than walls and windows. It is the store as a whole. And, so, when you make that examination, there are many things you should look for. To help you in that search for things-to-be-considered, you are invited to use the attached check list as a guide.

Then, what? Of course, the purpose of such a check (which should be made at regular intervals) is to find out if you need to modernize your store -- and how much of a modernization is essential.

THE WHYS AND HOWS OF MODERNIZATION

No one needs to tell you that modernization is a good -- and with the passage of time, necessary -- thing. Yet, it may not be amiss to mention the main areas of modernization, lest there be some misunderstanding about the term. Modernization is not a question solely of painting the walls or acquiring a new neon sign. Its signs are broader, and include:

1) Better physical store appearance (both external and internal)

2) Better utilization of space; better display of merchandise

3) Up-to-date fixtures and equipment for better display and protection of merchandise and for speeding customer service

4) Heating, ventilating, and air conditioning, to attract customers and make the store a better place in which to work

5) Soundness and safety.

What these five areas add up to is simply this: They convert a store into a "sales builder," a term more fully explained in Small Marketers Aid No. 41, "Is Your Store a Sales Builder or Barrier?", available, free, from the Small Business Administration, Washington 25, D. C. In that article, modernization was discussed at some length, and you may want to refer to it after you have seen the check list starting on the next page.

Harmony in Changes. In modernizing your store, keep these points in mind: (1) Before making any changes, look at the over-all picture to be sure that whatever changes you do make will blend in with the rest of the physical store make-up, or that future alterations will blend with the ones you are now making; and (2) that changes, particularly exterior changes, harmonize, at least in a general way, with the physical make-up of other stores. This latter point is particularly important if your store happens to be located in a shopping center.

Changes for changes' sake are clearly not desirable. What you are concerned with are *innovations* that will also be *improvements*. Thus, it may be a good idea for you to have some help in planning your modernization program. There are, of course,

specialists whose services are available, and you may wish to turn to them for aid. Should you prefer to do the planning yourself, however, it might help you to have a look at some other stores in your area, just to see how they went about the job of modernizing. In addition, you can study trade magazines, and talk to equipment and fixture manufacturers and dealers to get their suggestions and ideas. They provide many services in this field.

Money to Modernize. Of course, any changes you wish to make must be paid for, and the source of funds may be a problem. If you have ready cash on hand for this work, so much the better. But, if not, what then? Will the property owner participate in the investment?

If your credit is good, and you are known to a banker, it is quite possible that he will lend you sufficient funds to do the job. Of course, your banker too is in business to make money, and obviously he isn't going to invest his depositors' money without knowing what that money will be used for. So, if you think of approaching a banker, make as sure as you can that your plans will make sense to him; also be certain that they are complete -- neither too elaborate for your type operation, nor too skimpy.

Help from SBA, Under certain conditions, if the banks should be unable or unwilling to lend you the money, you may be able to get financial help from the Small Business Administration. Such help would most likely come in the form of the so-called SBA "limited loan participation plan," in which the Agency would participate with a commercial bank in lending you the funds you need. Such a loan would involve a monthly repayment schedule including principal and interest. The maximum maturity would be 5 years. SBA also makes other type participation loans and direct loans where funds are not otherwise available on reasonable terms.

Planning the Changes Wisely. Once that hurdle has been overcome, you're ready to make changes in the store. Remember, however, that you need not do everything at once; a good many store owners prefer to concentrate on the most needed alterations, and let the rest wait until later. Others, of course, prefer just the opposite course. This is a matter of judgment, and you are the best judge of what your store needs.

Finally, before making a sizeable investment in store modernization and new equipment the following problems should be considered: Is ample space available to handle increased store traffic? (Many stores are basically too small for much trade expansion). If not, can the store be expanded or adjacent property be procured? Is sufficient parking space available at location? Would a new store site be preferable?

And now to work: Let the check list starting below be your guide.

Item Observed	Check (x) Condition of Item	Check (x) Treatment Needed: Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	Enter Cost Estimate
EXTERIOR														
Face of Building	Poor appearance													
	Poor condition													
	Unsuitable color													
	Unsuitable material													
Electric Signs	Poor appearance													
	Poor condition													
	Poor color													
	Illegible													
	Insecure													
	Poor position													
	Improper size													

Item Observed	Check (x) Condition of Item	Check (x) Treatment Needed: Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	Enter Cost Estimate
EXTERIOR														
Window Lettering and Other Outside Signs	Poor appearance													
	Poor condition													
	Poor color													
	Illegible													
	Poor position													
	Improper size													
	Poor style													
	Letters missing													
	Obstructs vision													
Display Windows														
Glass	Cracked													
	Scarred													
	Frame too heavy													
Window Base (exterior)	Poor appearance													
	Poor condition													
	Unsuitable color													
	Unsuitable material													
Window Platform (interior)	Poor appearance													
	Poor condition													
	Improper height													
	Too shallow													
Side Walls, Ceiling, and Rear Partition	Poor appearance													
	Poor condition													
	Unsuitable material													
	Unsuitable color													
Lighting	Inadequate													
	Glaring													
	Unduly noticeable													
	Poor style													
Display Windows Ventilation	Condensation													
Awnings	Poor appearance													
	Poor condition													
	Poor color													
	Poor style													
	Improper height													

Item Observed	Condition of Item	Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	Enter Cost Estimate
	Check (x) Condition of Item	Check (x) Treatment Needed												
EXTERIOR														
Entrance Doors	Poor appearance													
	Poor condition													
	Hard to operate													
	Wrong location or size													
	Knobs poorly located													
	Insecure lock													
	Poor lettering													
	Glass too small													
	Poor screens (if used)													
Steps	Can ramp be built?													
	Practicable to change floor level?													
Sidewalk	Poor condition													
	Unsatisfactory material													
Cellar Entrance	Insecure door													
	Not flush with sidewalk													
	Unsafe													
	No elevator													
	No steps down													
	Poor interior condition													
	Poor location													
Outside Equipment														
Vending Machines	Poor appearance													
	Out of order													
	Obsolete design													
	Poorly located													
Curb Service Space	Inadequate													
	Inconvenient													
Parking Space	Inadequate													
	Inconvenient													
INTERIOR														
Floors	Poor appearance													
	Squeaky													
	Rough													
	Poorly covered													
	Unsuitable material													
	Unsuitable color													
	Hard to clean													
	Undue moisture													

Items Observed	Check (x) Condition of Item	Check (x) Treatment Needed: Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	Enter Cost Estimate
INTERIOR														
Walls and Ceilings	Poor appearance													
	Poor condition													
	Excessive posters, etc.													
	Poor color harmony													
	Partitions needed													
	Unnecessary obstruction													
	Bad skylights													
	Leaks													
Structural Obstacles	Columns													
	Projecting columns													
	Offsets													
	Partition wall													
	Bad angles													
	Low or varying ceilings													
	Varying floor levels													
	Floor not on street level													
	Elevators													
	Stairways													
Electric Wiring	Unpleasantly noticeable													
	Insufficiently protected													
	Inadequate for expansion of lighting equipment													
	Inadequate for present needs													
Piping, Gas	Exposed													
	Poor condition													
	Inadequate													
Plumbing	Exposed													
	Poor condition													
	Inadequate													
Toilet Rooms	Poor appearance													
	Poor condition													
	Inadequate number													
	Poor location													
	Poor ventilation													
	Poor lighting													
	Unhandy light switch													

Item Observed	Check (x) Condition of Item	Check (x) treatment needed: Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	Enter Cost Estimate
INTERIOR														
Wash Basins, Sinks, and Toilet Bowls	Poor appearance													
	Obsolete design													
	Out of order													
	Hard to operate													
	Unduly noisy													
	Cracks, stains, leaks													
	Unduly exposed													
Telephone Booths	Poor appearance													
	Poor condition													
	Poor location													
	Improper number													
Lighting Fixtures and Departmental Signs	Poor appearance													
	Poor condition													
	Insufficient illumination, out of order													
	Obsolete design													
	Improperly placed													
	Glaring or obscure													
Shelves and Wall Cases	Poor appearance													
	Poor condition													
	Too high													
	Too deep													
	Excessive													
	Insecure													
	Unsuitable material													
	Unsuitable color													
	Drawers stick													
	Doors hide merchandise													
Counters	Poor appearance													
	Poor condition													
	Improper height													
	Excessive													
	Unsuitable material													
	Unsuitable color													
	Faulty design													
	Long, unbroken lengths													
	Poorly placed													
Open Display Equipment	Poor appearance													
	Poor condition													
	Excessive													
	Unsuitable material													
	Unsuitable color													
	Faulty design													
	Poorly placed													

Item Observed	Check (x) Condition of Item	Check (x) Treatment Needed: Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	Enter Cost Estimate
INTERIOR														
Glass Show Cases	Poor appearance													
	Poor condition													
	Excessive													
	Faulty design													
	Poorly placed													
	Glass cracked and scarred													
Heating and Ventilation														
Heating and Heating Equipment	Poor appearance													
	Poor condition													
	Inadequate													
	Poorly placed													
	Obsolete													
	Exposed pipes													
	Inefficient													
Air Conditioning	Inefficient													
	Inadequate													
Fans, regular and draught	Poor appearance													
	Poor condition													
	Inadequate													
	Poorly placed													
	Noisy													
	Obsolete													
Transoms	Poor appearance													
	Poor condition													
	Hard to operate													
	Do not fit													
	Glass broken or cracked													
Refrigeration														
Mechanical	Poor appearance													
	Out of order													
	Poor position													
	Poor drainage													
	Obsolete													
	Inefficient													
	Noisy													
Other Equipment														
Cash Registers	Poor appearance													
	Out of order													
	Obsolete													
	Inefficient													
	Unduly noisy													
	Unsuitable type													
	Improper number													

Item Observed	Check (x) Condition of Item	Check (x) Treatment Needed: Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	Enter Cost Estimate
Other Equipment														
Water Coolers	Poor appearance													
	Out of order													
	Obsolete													
	Inefficient													
	Improper number													
Burglar Alarm	Poor condition													
	Out of order													
	Obsolete													
	Ineffective													
Incinerator, Trash, and Garbage Boxes	Improper size													
	Poor condition													
	Improper place													
	Insecure													
	Fire hazard													
Fire Extinguishers and Other Fire Equipment	Improper places													
	Poor condition													
	Out of order													
	Obsolete													
	Inefficient													
	Need refilling													
	Improper number													
Other Equipment (Add as required)	Poor appearance													
	Poor condition													
	Out of order													
	Obsolete													
	Inefficient													
	Unduly noisy													
	Improper number													
	Improper places													

SMALL BUSINESS ADMINISTRATION

SMALL MARKETERS AIDS No. 41

Washington 25, D. C.

IS YOUR STORE A SALES BUILDER OR BARRIER?

By *R. M. Baker*, Manager, Marketing Projects, Kawneer Company, Niles, Michigan

SUMMARY

Many retailers at one point or another wonder what's wrong with their stores. Customers used to flock in; sales were high; profits kept at a good level. Yet, little by little, the golden flow of customer traffic was cut way down. Why? Well, have you really had a good look at your store lately? Is it impressive from the outside, clean and attractive on the inside? Has it had a face lifting in recent years? If the answers to these questions are *No*, it's probably time you did something about it. It's time, in fact, to see if your store needs modernizing. This Aid tells you *how* and - more important - *why* you probably should modernize. And the answer, again, is simple: Remodeling may change your store from a physical *sales barrier* into a *sales builder.*

How attractive are today's small retail stores? Do they impress potential customers - - or do they appear to be mere over-grown storage spaces or shelters from the weather?

Well, many specialists claim that a large number of retail stores in this country are outdated in appearance and archaic in their merchandising facilities. They are "sales barriers," and they actually cost their owners uncounted dollars in might-have-been sales.

The Magic Word. Can something be done to convert these stores into "sales builders?" Certainly. And the magic word: modernize. To modernize does not mean simply putting up a shiny new neon sign or installing a streamlined cash register. It might include such items as a new store front, storage facilities, lighting fixtures, mirrors, floor covering, shelves, tables and chairs. And the store's New Look might also include an air-conditioning unit.

But (you object) doesn't such modernization cost money? Of course. Well, then, can most small retail stores *afford* to modernize? The answer is simple: They probably can't afford *not* to. To be sure, it may be that it will take time to recover the money invested in modernization. But meanwhile there are other benefits you can derive from it: Your employees' morale may improve; you may find it easier to hire new personnel; your customers will think more highly of you; and the new look may put new life into your enterprise and keep it on par with the competition. Of course, whatever money is spent - - and the amount varies - - must be spent wisely.

Some retail store operators modernize their stores, inside and out, all at once. You don't have to do that (though it's the most economical procedure). But, in any case, modernization *works.* To see just how well it can work, here are a couple of actual case histories of stores that modernized themselves right into success. But a word of caution: Face lifting is fine, but don't forget the store's other functions: good service, good merchandize, good selection.

MODERNIZATION BREEDS SUCCESS

In 1954, Clinton (name disguised) was a small town in a big economic slump. Business conditions in general were affected by a nationwide recession, and the largest manufacturing plant in town had closed down. Purchasing power was restricted and the people of Clinton were being cautious with their money. During that year Rex Porter (name disguised), a florist who had been in business in Clinton for many years, increased his sales by 45 percent. They jumped from $29,000 in 1953 to $42,000 in 1954. One reason for this unusual spurt of Porter's sales curve was a complete modernization of his sales room in late 1953.

The Jeppson Auto Supply Store in Wrightsville (name disguised) began to feel the competitive squeeze of new shopping centers in 1956. In order to bring in more customers management decided to give the store a face lifting. As a result, sales climbed 26 percent during the following year.

These are not cited as extraordinary examples; they are merely typical case histories illustrating the beneficial effect of transforming outdated stores which have become sales barriers into attractive sales builders. There is nothing particularly mysterious about this. Money spent on modernization - - if spent wisely - - *can* make your enterprise into a real sales builder. After all, ***the appearance of your store is a potent form of advertising.*** The thousands

of potential customers passing your store are either attracted to it, or they are not. They are either favorably impressed or they are repelled. Either way, your store is constantly broadcasting advertising impressions. When your store is advertising favorable impressions, store traffic will go up. But if the message is unfavorable, your sales will suffer.

How can you determine whether or not your store is one of these which is paying the high cost of obsolescence? There are four simple tests that you can apply to your own store.

TESTS FOR YOUR STORE

● ***Across the Street Look.*** How long has it been since you took a few minutes away from the routine of business to make an objective evaluation of your store? Walk across the street, and assume the critical frame of mind that the shopper has when deciding where and what to buy. As you examine the store, ask yourself these questions: "If I were a shopper, would that store create a favorable first impression on me? Would I be attracted to that store? Would I want to go in?"

Next, take a few minutes during, say, the lunch hour, and use them to watch people passing your store. Is their attention attracted to your shop and window displays? Do many passers-by stop to window shop? Do many of them actually enter the store?

● ***The Cash Register Test.*** Now, check your sales record for the last several years. During those years consumer income has gone up. How have your sales been performing while those customers have been spending all that money? If your sales have increased only slightly, or remained level, or even gone down slightly, you have an indication that your store is not attracting its share of that increased consumer income.

● ***The Comparative Test.*** How does your store compare with others in your area? Have competitive stores taken any substantial number of old customers away from *you?* Is your store keeping up with others in appearance? Is your store as attractive as competitive stores in nearby communities and shopping centers?

● ***The Time Test.*** This is the most concrete and important indicator of your store's need for modernizing. Has it been over 10 years since the shop had a complete or even partial face lifting? If so, better have another look to see if some modernization might not be indicated. After all, you would not run the same newspaper advertisement day after day or keep the same window displays indefinitely. For the very same reasons, it is important that your store be modernized perhaps every 10 years or so. Of course, there are some enterprises, such as antique shops, which may not want to do much modernizing, if any. But, generally speaking, aggressive merchandisers have learned from experience that modernizing usually pays off in a high level of sales.

CASE HISTORY OF AN INVESTMENT

Clearly, it is difficult to discuss modernization expenditures in specific detail and quote figures that have any meaning unless one analyzes the individual requirements of a particular store. There are, however, certain basic investment factors that apply generally. A typical example can best illustrate these principles:

Golium's jewelry store has been in business 31 years. The last time it had a complete face lifting was when Henry Golium, Sr. moved into the location in 1927. Through the years, a few partial changes have been made: The interior was painted; several new display cases were added; and a larger display window displaced the old, smaller one when the latter was damaged by a storm. But one day, Henry Golium, Jr., decides to "put up a good front," and go after additional business.

● ***Adding the Estimates.*** Having made his decision, Golium consults with various experts who can assist him in the planning of his remodeling; and he has obtained sketches, plans, and estimates. Now he can accurately figure the cost of his program. It adds up to a total investment - - including labor costs - - that is in the range of sound planning for his operation.

New showcases and fixtures (retaining some of the old ones)	$4,200
New Storefront and entrance, including new sign	3,600
New Lighting Fixtures	1,100
Interior decorating	600
New Flooring	450
Total	$9,950

● ***Return on Investment.*** Henry Golium, Jr., realizes that sound financial planning requires that he add to the capital investment itself a fair estimate for financing charges (whether or not he actually decides to borrow the money). So he adds $820 to cover this item, bringing the total to roughly $10,770.

He knows that, on the average, the useful life of any improvements will be about 10 years. Now, sitting down with pencil and paper, he tries to figure out what such a long term improvement project will cost him - - and how soon he may be able to pay for it.

For some time Golium has been making discreet inquiries, and has found out that some stores in his vicinity increased their sales by 20 to 25 percent as a result of modernization. But he wants to be conservative, so he uses 15 percent as his basis for estimating post-modernization sales increases. Because his current sales figure is about $100,000, he looks forward to an additional $15,000 worth of business per year.

Using an average gross margin of 35 percent, he determines that his additional gross profit would amount to $5,250 per year. Because his overhead will not go up materially as a result of the complete renovation, he figures that nine-tenths (or about $4,725) of the higher gross profit will be net profit. Of course, the amortized cost of remodeling (about $3,590) is subtracted from the increased profit. In other words, the 15 percent increase in sales he hopes to achieve will give him an additional net profit of $1,135 per year over and above the amount he will pay out for

his store modernization work.

Borrowing $9,950 at 5.5 percent for 3 years, Golium's total bill will come to $10,770. With a projected profit increase of $4,725 per year, he feels that his modernization can be paid for comfortably.

●***Pay as You Profit.*** Golium realizes that if he actually makes a lump cash payment for the modernization, he will be depleting his working capital rather seriously. So, instead, he decides to arrange financing with his bank. He finds that there are several methods of accomplishing this, including non-secured personal notes, mortgage liens, and chattel mortgages. After discussing with his banker these and other ways to obtain the funds he needs, Mr. Golium arranges financing on a mortgage lien which spreads his payments over the proposed 3-year base.

PLANNING FOR MODERNIZATION

There are several people who can and should be called upon to assist you in planning your modernization program. First, talk to your banker. His advice on how much to spend and how to finance the project can be invaluable. You might also want to consult your trade association or a professor of retailing at a nearby university. About cost factors you can talk to local storefront and other dealers to get ideas and estimates. Such specialists in remodeling will be glad to examine your facade, and make recommendations for solutions, provide sketches and cost estimates, all free of charge. Likewise, many fixture firms provide a free consulting service that will enable you to get sound ideas for your interior layout and traffic plan. Ideas and information on lighting systems can usually be obtained through your local electrical company. Whenever possible it is advisable to take your tentative ideas to an architect (at a fee, of course) who has the experience required to convert your wishes into an outstanding and functional store plan.

Design - - Unusual or "Ordinary?" It is quite common for the retailer who is contemplating modernization to take the approach that "My customers won't like anything fancy or unusual. Keep the design simple." However, there are numerous indications, based on case histories of successful stores which have achieved outstanding results in sales increases, that the contemporary shopper is more design-conscious than in years past, and that he or she appreciates good design. This reasoning applies just as much to unusual approaches as to the more conventional ones. Keep in mind, too, that *good* design may be as cheap in the long run as *poor* design. The latter, in fact, can be more expensive, both in terms of installation costs and in terms of its lesser customer "draw." So, generally, good design is good business.

Planning With Care. As you get into the planning of the modernization project, you will find many of your decisions hinging on the basic question of whether to go all out or whether to keep costs down to rock bottom. For example, in the design of the storefront you may have the choice of face lifting the street level only, or continue it to include all two or three floors. Of course, remodeling that extra area will involve considerable additional expense, but it may also add a great deal to the pulling power of your store.

Of course, there are practical limits to the extent of any modernization project. You should not, obviously, go overboard to the extent that you jeopardize your solvency or impair your working capital to such a degree that you will have difficulty in maintaining an adequate inventory. It will not help much to increase store traffic 20 or 30 percent if your stock is inadequate and potential customers find the selection too skimpy - - and walk out. Here is an area where discussions with your banker, trade association or business school professor can be of great help in steering a steady course between too much and too little investment.

Beware of Bargains. In obtaining estimates and quotations on the remodeling, you may encounter some remarkable "bargains," estimates that are unusually low. Of course, these can be legitimate bids based on satisfactory materials and workmanship. But examine these suspiciously low figures carefully. As a businessman, you know that you generally get only what you pay for. Such a bargain, therefore, may not include the caliber of workmanship you want for your store.

Modernizing in Stages. Perhaps you are not in a position to do a complete, inside and out, modernization job all at once. Certainly is is desirable to do a complete, integrated job of modernizing rather than attacking the problem piecemeal. Not only is it more economical to do everything at one time, but the complete remodeling has a stronger merchandising impact.

But if you don't want to commit yourself to such a large expenditure all at once, you can plan to modernize the store in easy stages. Say, for instance, that the interior is a particular liability to your sales; the place to start then is inside. However, if the interior is providing a reasonably good sales atmosphere, it is normally advisable to start the remodeling at the front, because *the storefront is one of the most decisive elements in projecting the store's character to the public and in building store traffic.*

[If you cannot obtain private financing on reasonable terms for either a partial or complete modernization project, you may want to explore the financial assistance program of the Small Business Administration. Specialists in these offices, located in most major cities, can discuss your problems with you, and determine whether you are eligible for an SBA loan. Check your telephone directory for the nearest SBA field office. *Editor's note.*]

Regardless of the approach you are going to take in making your store over, it is important that you do a comprehensive job of planning at the outset. For example, if you eventually want to revise the traffic flow in and through the store, the entrances of the storefront should be planned and located accordingly.

The Lease. If you are leasing your store, your

modernization planning must take into consideration certain special factors. The most important of these is your lease. In other words, the more extensive the modernization, the longer the lease should run to justify your investment.

At the same time you may wish to seek the cooperation of your landlord in the modernization program. But many landlords may wonder why they should participate financially. Actually, there are several very tangible monetary reasons that make modernization a sound business proposition for the building owner. First, the modernization is bound to make his property more attractive physically; second, it will make it a more productive asset. After all, a building that is allowed to go downhill is no asset either to its tenants or to its owner.

There are many practical methods of landlord-tenant financial cooperation. But since each case is different, it is best if you and your landlord work out the arrangement most suitable to you both.

Not a Panacea. Earlier in this Aid, mention was made of the impressive increases in sales and profits which have been experienced by thousands of modernized stores. But nobody should jump to the conclusion that a renovation of the physical facilities of the store will automatically solve all problems and insure business success. If there are other serious defects in the merchandising operation - - incompetent sales personnel, inadequate inventory, poor location, lack of parking facilities, poor pricing practices - - physical changes will not increase sales in your store. You can lure the customer into the shop (once!) via a new front, but you cannot make him buy. So, it is well to remember that a new look will be a sales builder only if it is more than paint-deep. Customers may appreciate new colors and columns, but they'll still expect quality, courtesy and choice. These attributes, *plus* an imaginative modernization job, can make your store into a truly powerful sales builder.

FOR FURTHER INFORMATION

Businessmen interested in exploring further the subject of store modernization may wish to consult the publications listed below. Other titles, of course, could have been cited; however, in keeping with the editorial policy of the series this list was kept brief and selective. No slight is intended towards authors whose works are not included.

"Modernization of the Downtown Store," in *Stores*, published by the National Retail Merchants Association, 100 West 31st Street, New York, N. Y. October, 1958, pp 18-71. $5 per year.

"Trends in Modernization," in *Chain Store Age*, published by Lebhar-Friedman Publications, Inc., 2 Park Avenue, New York 16, N. Y. July, 1958, pp 21-38. $3 per year.

"Modernization, Key to Downtown Revival," in *Chain Store Age* (Administrative Edition), Published by Lebhar-Friedman Publications, Inc., 2 Park Avenue, New York 16 N. Y. February, 1958, pp 24-33. $3 per year.

Store Modernization Can Help Your Business. Small Business Bulletin No. 7, 1958. State of New York Department of Commerce, 112 State Street, Albany 7, N. Y. Free on request.

Controlling

SMALL BUSINESS ADMINISTRATION

SMALL MARKETERS AIDS No. 30

Washington 25, D. C.

ARE YOUR MERCHANDISE LIN[illegible] PAYING THEIR RENT?

By *Leo V. Aspinwall*, Head Marketing Division, School of Business,
University of Colorado, Boulder, Colorado

SUMMARY

One of the major items of expense in retailing is rent. Rent may be thought of as a percentage of the sales produced in the space occupied. Whether or not that space is owned by the merchant or leased, the cost of occupancy must be paid out of gross margins resulting from sales. In fact, lease contracts are often based upon a percentage of sales: as sales increase so does rent; likewise, when sales decrease rent also goes down unless some sort of minimum-fixed-rental arrangement is used. The growth of such percentage leases emphasizes the close relationship between sales and rent. Also it underscores the need for a closer examination of the influence of occupancy costs on store layout.

Customers moving in and out of your front door behave just about as do people on the street. Those who know what they want try to go directly to that item. People with no specific items in mind, move from place to place as their interest is caught by goods on display. These two types of traffic are known as ***destination*** traffic and ***shopping*** traffic.

Destination customers tend to move in a logical, though-out sequence. Shopping customers, taking a largely random approach, almost always ***turn to the right*** after they enter your front door. Destination traffic generally will not drift to the right because of the slower and unpredictable movements of the shoppers. Instead, these customers ***usually turn left*** upon entering a store. As a result, shopping traffic tends to circulate through a store in a counter-clockwise direction, while destination traffic moves clockwise. Recognition of this movement provides a key to the layout of goods not only near the door but also within the entire selling space.

Goods with low gross margins and high replacement rates should be located conveniently, say, on a forty-five degree angle to the left of the entrance. This location will afford destination customers immediate access to the staples they buy frequently. It will help them complete their purchases quickly. In contrast, the high gross margin items with low replacement rates should be arranged on the right. When this is done, these goods are seen by the bulk of the shopping traffic; as a result, sales of these items tend to increase.

RENTAL VALUE OF SELLING SPACE

Because the space nearest the traffic flow offers the greatest exposure to customers, it has the greatest sales potential. For this reason, the front part of your store is the most valuable. Towards the rear, values decrease. These relationships may be expressed in mathematical terms by the so-called "4-3-2-1 rule," or by the "average rate of value decline," both of which are used in analyzing selling-space values.

• ***The 4-3-2-1 Rule.*** Suppose, for instance, that you had a simple, middle-of-the-block, one-story store. You have a 50-foot frontage and a depth of 100 feet. The area within the building contains 5,000 square feet each of which must earn its share. The 4-3-2-1 system is a straight-line approach to measuring the decline in space value as the distance from the front of the store increases. It is used as a rough approximation of the relationships between the values of the various spaces occupied. The application is explained by diagram 1. It points out the need (1) for larger sales in the front part of the store in order to support the higher value of that space, and (2) for goods to be arranged so that shopping traffic moving right will be exposed to high gross margin goods while destination traffic moving left will quickly find low gross margin goods.

Many small retailers believe that placing staple

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items at the rear of the store will cause customers to pass displays of high-margin goods from which they will make impulse purchases. This is sometimes true (for instance, in certain types of firms such as grocery stores where customers typically purchase a number of items at one time), but it is not an infallible rule. Some customers with routine needs resent being obliged to go the full length of a store to get what they want. In fact they may refuse to do so and simply seek another store where these goods are up front.

To be sure, physical elements such as pillars within the store space and the placement of entrances do affect the arrangement of goods. They cause some stores to present what may seem to be a contradiction of these general rules. Nevertheless, alert merchants try to correct undesirable elements so that their stores do follow the normal pattern as much as possible.

• ***Average Rate of Value Decline.*** While the 4-3-2-1 rule is useful as a rough technique, it lacks accuracy. Therefore, if greater precision in measuring space values is desired, then the so-called "average rate of value decline" method should be used.

This approach, being technical, requires specialized knowledge which most retailers have to hire. As a result, it is often more costly than the value of its findings to very small concerns. However, retail stores having more than 1500 square feet of floor space (30 by 50 feet, for example), should be able to absorb the cost of such an analysis and still make money by rearranging goods according to the findings.

The decline in space value may be presented graphically by what is called an "(r) Factor Curve." It is based upon the fact that, in practice, space values don't drop off at an even rate toward the rear of a store. They decline more rapidly in front than they do in back. The "Curve" is figured out by a statistical analysis of actual customer traffic. From this analysis, a curved line is plotted on a graph. This line shows the change in space values from one part of a building to another. Once the chart is completed, the value of any given location in a store can, as it were, be "looked up."

Diagram 2 shows what the (r) Factor Curve would look like for the same store illustrated previously in diagram 1. Line "A B" represents the 100-foot depth of the store divided into 20 bands of 5 feet each. All the area from the front of the store back to the line called "average rent" is worth *more* than the average rent (48 cents per square foot per year). All the space from the "average rent" line back to the rear of the store is worth *less* than average.

Comparing the values in diagram 1 with those in diagram 2 will highlight the short-comings of the 4-3-2-1 system. For example, the space value at line "X" by the 4-3-2-1 system is around 77 cents while the (r) Factor Curve method puts it at $1.43. At line "Y" the value by the 4-3-2-1 system is about 38 cents in contrast to the (r) Factor Curve figure of only 18-1/3 cents. Back at line "Z" the 4-3-2-1 system puts the value at around 19 cents as compared to an (r) Factor Curve value of 8 cents.

COMPUTING NEEDED FLOOR SPACE

The (r) Factor Curve is also able to provide figures on the amount of space certain goods should occupy. Suppose, for example, that the store illustrated is a drugstore, and that a tobacco department location is at the left inside the front entrance. How much space should be allotted to it?

Tobacco sales last year totaled, say, $8,640. A sales rate of $30.00 per square foot per year was reported by National Association of Retail Druggists in studies for this size store. Thus $8,640 ÷ $30 will indicate the space which should be needed to produce this sales volume: 288 sq. feet. Note that *space is computed to the center of the aisle serving the department.*

A 6-foot aisle serves the department, and hence, 3 feet of aisle space must be paid for. Then there is a case containing some of the stock which is 24 inches wide. To this must be added a 2-foot aisle for clerks, and an 18-inch wall case. The total is 8½ feet. Thus, 288 square feet divided by 8.5 gives a front dimension for the department of 34 feet.

Occupancy in this case costs 5 percent of sales, and therefore, the amount of rent allowable for this department will be $8,640 x 5% or $432. Then, if 288 square feet is divided into the allowable rent, the rate per square foot per year can be calculated: 432 ÷ 288 = $1.50 per square foot per year which can be paid for space to accommodate this department. At this point, the (r) Factor Curve can provide the means of locating an area that has a value of $1.50 per square foot per year - - in the neighborhood of the $1.43 line on diagram 2.

If this tobacco department actually filled 500 square feet, then the sales rate would be only $17.28 per square foot per year. This would be far below the Association's standard figure of $30. Moreover, the occupancy cost of 5 percent of the $8,640 sales was only $432 per year. To occupy 500 square feet of space worth $1.50 per square foot per year would cost $750, almost twice what

is reasonable on that sales volume.

Such calculations provide a useful way of making sure that your merchandise lines are paying their rent. It is worthwhile to review your own operations periodically to see that the goods are arranged so as to support the value of the space they occupy.

FOR FURTHER INFORMATION

Businessmen wishing to explore further the subject of retail store layout may wish to consult such organizations as the National Retail Dry Goods Association, 100 W. 31st Street, New York 1, New York; National Assoiation of Retail Druggists, 205 W. Wacker Drive, Chicago 6, Illinois; American Marketing Association, 27 E. Monroe Street, Chicago 3, Illinois; or the Association of Consulting Management Engineers, 347 Madison Avenue, New York 17, New York. Such groups can often supply the names of specialists who can provide technical assistance.

For additional reading, the following selected books contain material on layout. They are representative of other good volumes which the present format precludes mentioning. No slight is intended toward authors whose works are not included.

Principles of Retailing by C. W. Barker and I. D. Anderson. McGraw-Hill Book Company, 330 W. 42nd Street, New York 36, New York. 1941. $5.50.

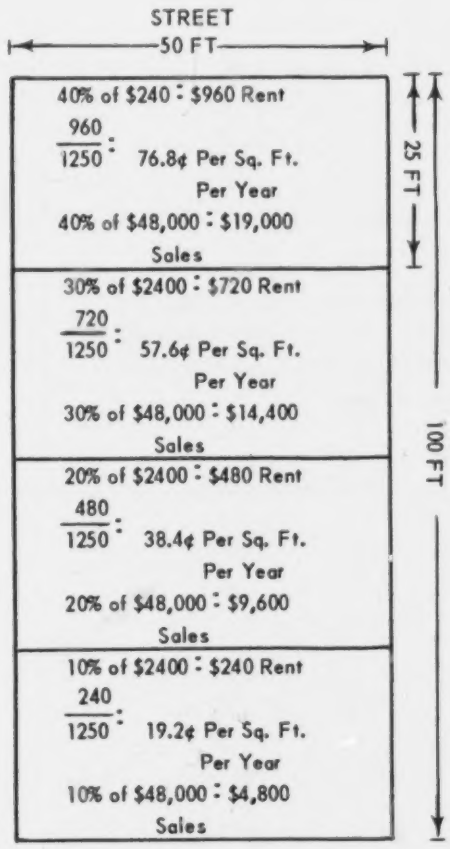
How to Establish and Operate a Retail Store by O. P. Robinson and K. B. Haas. Prentice-Hall, Inc., Englewood Cliffs, New Jersey. 1952. $5.00.

Store Organization and Operation, 2nd Edition, by O. P. Robinson, J. G. Robinson, and M. Matthews. Prentice-Hall, Inc., Englewood Cliffs, New Jersey. 1957. $6.75.

Retailing: Principles and Methods, by D. J. Duncan and Charles F. Phillips. Richard D. Irwin, Inc., 1818 Ridge Road Homewood, Illinois. 1955. $7.20.

DIAGRAM 1

4 - 3 - 2 - 1 RULE



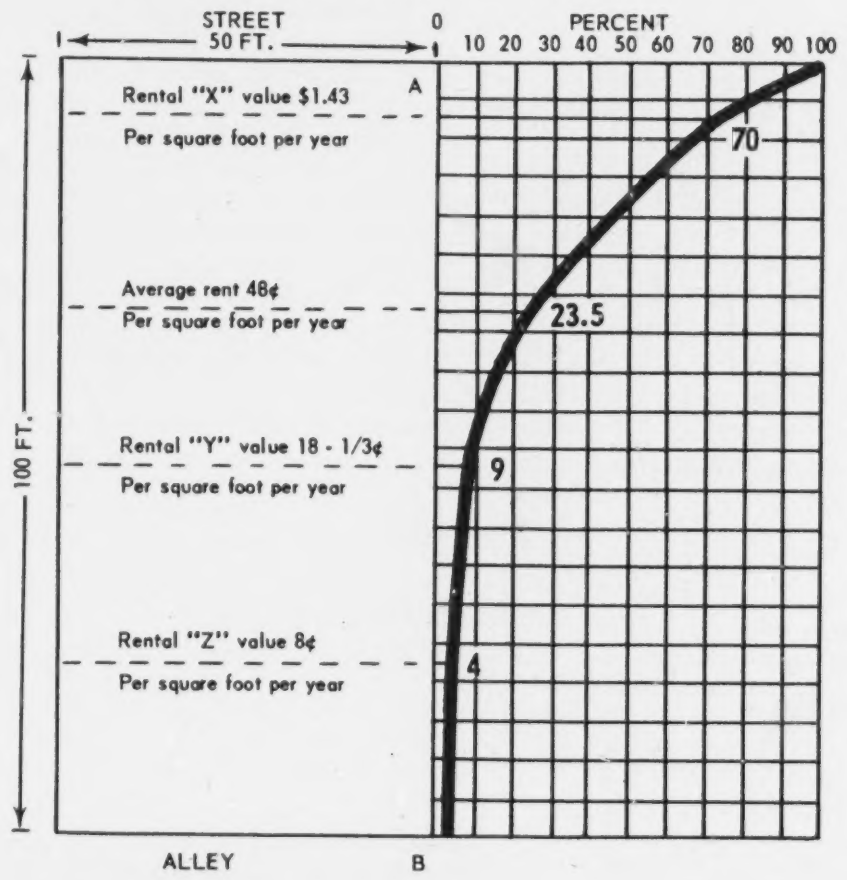
The rent contracted by lease is $2400. per year. Therefore 5000 square feet divided into $2400 = 48¢ per year. This is the average rent per square foot per year for the whole store.

Under the 4-3-2-1 rule, 40% of the total rent is assigned to the front 1/4 of the space; 30% of the total rent is assigned to the second 1/4 of the space; 20% of the total rent is assigned to the third 1/4 of the space, and 10% is assigned to the rear 1/4 of the space.

Typical rent or occupancy cost for a drug store is 5% of sales; so that $2400 = 5% of sales, and 1% = $480, and 100% = $48,000 total sales.

DIAGRAM 2

DIAGRAM OF RENT CALCULATIONS BY MEANS OF (r) FACTOR CURVE
CENTER OF CITY BLOCK LOCATION. SPACE ANALYSIS
USING .80 AS THE COMPUTED RATE OF VALUE DECLINE.



Average rent of 5,000 square feet at $2400 per year contractual rent equals 2400 ÷ 5000 or 48¢ per square foot per year. Value of curve is read at each of the 21 horizontal subdivisions from A to B. Sum of all these values (493.5) is divided by the total number of readings (21) to yield average curve value (23.5). Line drawn from 23.5 point on curve to floor plan of store shows location of average rent of 48¢ per square foot per year.

SMALL BUSINESS ADMINISTRATION

Management Research Summary

Washington 25, D. C.

Small Store Opportunities in Planned Shopping Centers

By *Thomas Lea Davidson*, Assistant Professor of Marketing, School of Business Administration, University of Connecticut, Storrs, Connecticut

HIGHLIGHTS

Small merchants for certain lines of merchandise--notably drugs, food, variety, and shoes--are considerably concerned about being kept out of planned shopping centers. Each of these fields is currently plagued with problems arising from chain-store dominance.

Credit ratings figure strongly in acceptance for shopping center occupancy. The existing formula for shopping center financing is based on steady income provided by AAA tenants occupying approximately 70 percent of total space. Applicants with less attractive credit ratings have more difficulty obtaining shopping center locations. A proper "merchant mix," essential to successful shopping center operations, is sometimes difficult to attain because retailers whose occupancy is otherwise desirable do not have the required credit rating.

In this study of 81 shopping centers it was found that rental fees depended more upon size of store, expected sales volume, and kind of merchandise than upon type of ownership.

The experience of new businesses in shopping centers appears to be extremely good. Of 114 cases of mortality in the group of shopping centers studied, only one was a new business.

The planned, controlled suburban shopping center has been generally accepted as one of the major developments in retailing in the postwar period. Estimates by various groups indicate that approximately 4,000 shopping centers are now in operation and that this number may be more than doubled by 1965.

This new retailing trend has been accompanied by complaints that there is a lack of opportunity for small retailers to gain access to shopping center locations and that, when access is available, smaller merchants may have to pay higher rents.

ECONOMICS OF SHOPPING CENTER OPERATION

Because the problems of small retailers in shopping centers appeared to be tied in closely with the economics of shopping center operation, it was necessary to get some background information at the start.

•Origin of Shopping Centers. A shopping center comes into being when an owner-developer recognizes the need for it and gains control of a suitable plot of land. Such a plot must be of adequate size, must be in a good market location, and must have available the utilities and services necessary for the construction and operation of a shopping center. Having obtained rights to a desirable shopping center plot, the developer must then work out leases from key tenants, usually big chains. Their prestige will help bring other retailers into the center. The developer must also arrange for the financing and construction of physical facilities. He must obtain the remainder of the leases, and organize whatever continuing management is necessary.

With few exceptions, owner-manager landlords are not merchants. Rather, they are real-estate brokers, construction contractors, or mortgage specialists. Their function is not to sell merchandise, but to finance, build, and operate real estate. They are investors who supply part of the fixed capital--land, buildings, and perhaps certain store fixtures--which a retailer requires for the operation of his business.

In turn, the retailer usually pays a rental fee. This

AVAILABILITY OF THE FULL REPORT

This study was initiated under the direction of Samuel C. McMillan in cooperation with Carl J. Gladfelter and Thomas Lea Davidson.

Copies of the full report, titled "Some Effects of the Growth of Planned and Controlled Shopping Centers on Small Retailers," may be purchased for $3.50 from Dean Laurence J. Ackerman, School of Business Administration, University of Connecticut, Storrs, Connecticut. Make checks payable to the University of Connecticut.

This report was prepared under the Small Business Management Research Grant Program of SBA. It may be reviewed at any SBA field office or at certain depository libraries whose addresses may be obtained from the SBA field offices or the Small Business Administration, Washington 25, D.C.

is frequently based on a minimum, plus a percentage of his gross sales volume (known as the "overage") and/or a contribution to promotion and maintenance overhead.

• **Selection of Shopping Center Tenants.** The basic formula for shopping center financing requires a stabilized income stream. It must be sufficient to cover the cost of interest and amortization, plus all operating expenses of the center during the life of the mortgage. Such an income stream is provided primarily by the leases of tenants with AAA, or comparable, credit ratings.

In the typical shopping center, about 70 percent of the space is rented to AAA or comparable tenants. The rest of the space is rented to tenants who have less attractive (though not poor) credit ratings. Thus, requirements of lending institutions for AAA tenants reduce sharply the opportunity for anyone other than excellent credit risks to become a large user of space in a center. Another reason for the high percentage of AAA credit tenants is this: Many potential tenants will not decide to locate in the center unless they are satisfied that there will be key retailers to attract customers to that center.

Financing local, independent merchants to round out the merchant-mix of the center also poses problems. Typically, there are dominant local retailers, such as specialty merchants, who are not interested in locating in the center. Others, such as drug, grocery, women's apparel or shoe store owners, would like to locate in the center but are unable to do so because chain operators with stronger credit usually get the leases for these kinds of stores. Still others, such as personal-service trades and small retailers, strongly desire to locate in the center but have very limited resources and often little retail experience.

Evidence suggests that one of the reasons why the retail makeup of some centers is not in balance is a lack of awareness of what is good retail practice. The same is true of the tendency of a landlord to want all of his property leased. Another reason for failure to give proper consideration to mercantile factors in the makeup of a center is that, in many cases, leasing is done by brokers who are not familiar with shopping center merchandising.

SHOPPING CENTER PROFILE

What effects do the foregoing conditions have on small retailers already located in shopping centers or those seeking to get in? A study of 81 shopping centers provided the following information.

• **Occupancy by Small Retailers.** In the 81 shopping centers studied, there were 2,552 store units. Of these there were 2,127 retail stores, 301 nonretail stores (professional and other types of offices), and 124 unoccupied. The largest groups of retailers were shoe stores; women's apparel shops; eating and drinking places; and hardware, auto accessory, and paint stores.

Stores which were many in number but did not occupy large areas were shoe stores, women's apparel shops, and eating and drinking places. Businesses using considerably more space than their numbers might suggest were department stores, variety stores, and supermarkets.

In the shopping centers, national and regional chains, together with the AAA branch stores, accounted for about 35 percent of the store units. But they occupied more than 72 percent of the space. Occupants primarily local in character represented about 56 percent of the store units. But they used only about 23 percent of the space. Three other groups—banks, franchised agencies, and government agencies--used 4.5 percent of the store units. They represented slightly more than 2 percent of the space.

Returned questionnaires and interviews with retail spokesmen indicated that, with the exception of a few merchandise categories, the question of availability of space in shopping centers was not a major issue with the small retailers. In fact, the general attitude of many was lack of interest.

There are three reasons why many small retailers are not concerned with the problem of gaining access to a shopping center location. They are: (1) the fact that characteristics of certain types of stores do not lend themselves to center operations, (2) the affinity of many local merchants for a downtown location, and (3) a lack of the resources required to open a branch.

However, the lack of concern evidenced by many merchants does not mean that, if they did want shopping center locations, they would have no trouble getting them. Without question the small merchants for certain lines - - notably drugs, food, variety goods, and shoes - - are considerably concerned.

Each of these fields is currently plagued with problems because of chain store dominance. In several instances, it appeared that the trade associations in these fields looked upon shopping center discrimination as merely one part of this larger problem of chain store, supermarket, and discount house competition. Consequently, the shopping center problem appears to be of most concern where chain stores are already dominant. The implication is that as chains grow in dominance in other fields (as may be happening in women's apparel or candy), the shopping center problem may also grow.

• **Shopping Center Rental Fees.** Claims have been made that the small retail merchant--if he gets in at all--must pay a higher rent than his top-credit counterpart. Such discrimination supposedly stems from the ability of key tenants to negotiate favorable leases because of their importance both in the financing of the center and in the attracting of other occupants.

Nine centers, ranging in size from 95,000 to 1 million square feet and diversified in geographic and market location, were studied to check the validity

of these claims.

Analysis of payments from tenants in the nine centers showed that 80 percent of the total receipts came from minimums, 14 percent from overages, and 6 percent from contributions. It shows, further, that AAA or comparable tenants occupied 73 percent of the total space. They contributed 64 percent of the total minimums, 80 percent of the total overages, 61 percent of the total contribution, and 66 percent of the total amount paid by all tenants.

Tenants with less than AAA ratings occupied 27 percent of the total space. They contributed 36 percent of the total minimums, 20 percent of the total overages, 39 percent of the total contribution, and 34 percent of the total amount paid.

Analysis also showed that rent depends more upon size of the store, expected sales volume, and kind of merchandise than on the type of ownership (national branch, local, and so on) of the retail operation. In every case, the variances among different types of stores within a single merchandise category were larger than the variances among different types of ownership. While the sample was too small to allow projection to the regional or national scene, it at least indicates that rent discrimination is neither universal nor frequent.

• **Birth and Mortality in Shopping Centers.** Of the 2,552 retail outlets in the 81 shopping centers studied, 219 stores, or 8.6 percent, were new. The experience of these new businesses appears to be extremely good. Of the 114 instances of mortality in the 81 shopping centers, only one was a new business.

The results of the study suggest that mortality in shopping centers is running below the national retail mortality rate. This results partly from the paternalistic attitude that shopping center developers often take toward some of their retailers.

The study also revealed that, of the 114 mortalities, there were 18 which occurred in the AAA, or comparable, tenant group. Eleven were in the local chain-store group, and 85 in the local one-store or local branch-store group. Reasons given for mortality, in order of frequency of mention were: (1) mismanagement; (2) mutual consent to be released from a lease; (3) lack of sufficient volume; and (4) wrong location and/or merchandise.

SUGGESTED SOLUTIONS TO PROBLEMS

It is apparent that the solution to the problem of creating more opportunities for small retailers in shopping centers lies in one of two areas. Either the small retailer must be provided with a credit rating that is acceptable to lending institutions or new sources of capital must be developed that will *not* require as many AAA tenants as are now needed to obtain financing for a center. The following suggestions developed from the study.

• **Guarantee Lease Insurance.** The advocates of guarantee lease insurance seem to assume that it is now (or can be made) available. However, those persons in the insurance industry who cooperated in the study state that it is not available, and that this form of insurance does not seem to have much chance of being written by private insurance companies.

The basic problem, from the underwriting viewpoint, is this: If insurance to guarantee leases did exist, it is likely that only the tenants who had doubts about their ability to pay the rent would apply for it. Tenants with strong credit ratings would probably feel that insurance of this type would be an unnecessary expense; they would expect to meet their obligations in stride. It seems highly improbable then, that insurance to guarantee leases would be feasible for the type of problem faced by small retailers.

• **Lease Bonds.** In the surety field, there are circumstances where lease bonds could be purchased. They would guarantee the payment of rent in case a tenant could not do so. Unfortunately, there are at least three critical problems to be faced if lease bonds are used.

First, lease bonds are ordinarily written for a maximum period of 2 years. But the problem facing the shopping centers is to get rent guaranteed for a period of 10, 15, or 20 years (the life of the mortgage on the shopping center.) Occupants frequently sign leases for similar periods.

Second, the cost of lease bonds would tend to widen the difference in occupancy costs to large and small retailers.

Third, the same standards used by lending institutions for appraising credit risks would be used by an underwriter in determining whether or not to issue a bond. Thus, if a merchant were turned down by the lending institution as a lessee because of his modest credit standing, he would probably be turned down also by the surety company to which he applied for a lease bond.

• **Federal Government Legislation.** Recent legislation may be of some help to small retailers. The Small Business Investment Act of 1958 was designed to provide equity capital to assist small businesses of all types. Nevertheless, some investment companies have been formed primarily for retailing. In certain cases, there is the specific objective of assisting small retailers to become tenants of shopping centers.

• **Insurance of Debenture Bond Financing.** Another suggested plan is debenture bond financing. This device, whether by Government or private organizations, would have the effect of improving the credit standing of retailers as a group and could provide new sources of funds. The developer of a shopping center, rather than the individual retail merchant, would be insured. Instead of guaranteeing the rent to be paid by each tenant, the insurance of debenture bond financing would guarantee the ability of the entire center to produce sufficient revenue to pay off the loan.

That difference has several important aspects.

Insurance of debenture bond financing would be somewhat less risky than lease bonding. It is conceivable, for instance, that under an insured debenture bond plan, a number of small retailers could fail before the insuring agency was required to make any payments. Safeguards would, of course, be necessary. But insurance of debenture bond financing would reduce, if not eliminate, the problem of setting up specific eligibility tests and rate schedules for individual merchants.

If properly worked out, this plan could provide the flexibility lacking in most other suggestions. It should be possible to establish an arrangement whereby a developer would have to insure only a part of his annual debt-service commitments.

Suppose, for example, that 50 percent of a shopping center was leased to AAA tenants. The developer would be able to get a conventional mortgage based on the capitalization of the minimum rent from these tenants under current conditions. He would have to issue insured bonds equal to only 20 or 25 percent of the size of his center, because this amount, plus the guaranteed leases of the AAA tenants, would provide the 70 percent collateral required to finance the center. The developer could then select the remainder of his tenants regardless of their credit rating.

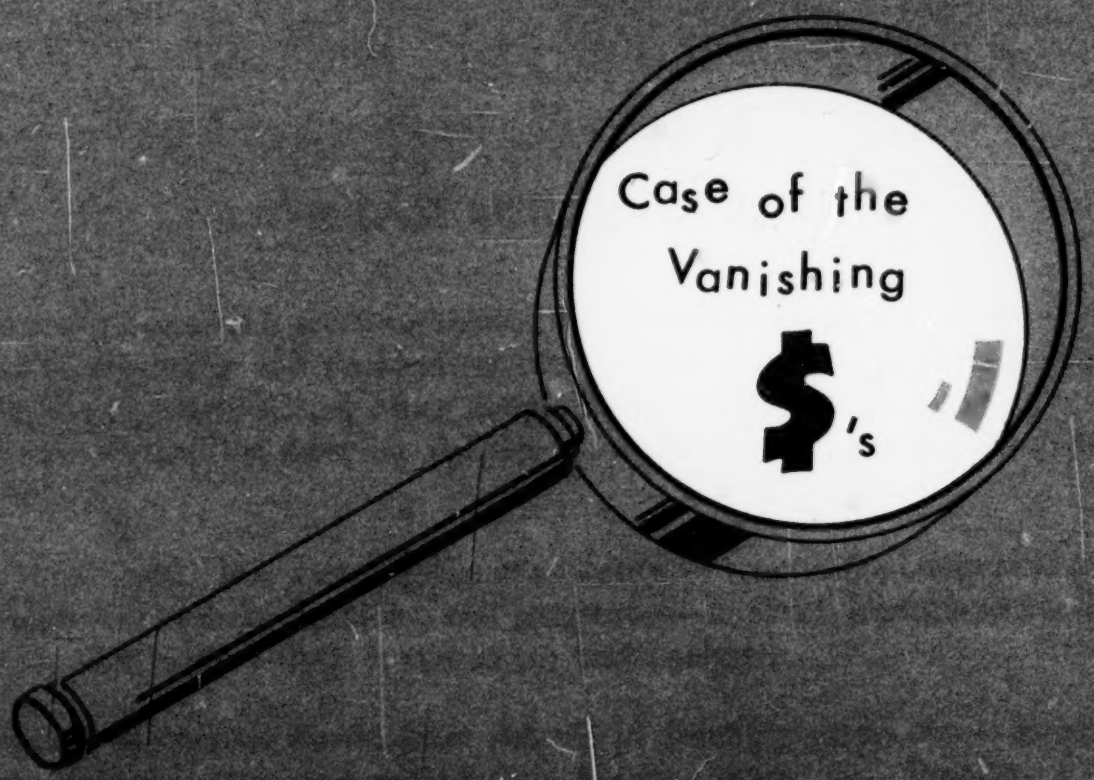
Further, this plan could prove less of a financial burden than direct lease bonding. The premium for this insurance would become an operating expense of the developer and would be spread out over the total number of tenants. The rate might well be less than for direct lease bonding, because it would be based on group experience rather than on individual tenant risk.

Because of the insured nature of the bonds--especially if the insurance were issued by the Federal Government--the developer should be able to get a lower rate of interest than that required for standard commercial loans. Conceivably, the reduced interest rate might cover all, or most, of the cost of the premiums for this insurance. Another safety feature is that this insurance would allow a center to weather a bad year, such as could be caused by a local recession.

HOW THIS STUDY WAS MADE

The purpose of the research project upon which this Summary is based was to investigate the validity of retailer complaints about shopping centers. An attempt was also made to find possible solutions.

Information was obtained--through mail questionnaires and personal interviews--from shopping center owners, developers, retailers, executives of financial institutions, real-estate brokers, and trade-association executives. Detailed data were collected on 81 shopping centers in the eastern part of the United States from Massachusetts to Florida, and as far west as Ohio.



CASES IN POINT

Case Studies for Depth Penetration

Section

The case method has proven stimulative and effective in many administrative management courses. The following case material is suggested as a means of encouraging discussion.

It is suggested that one full session be devoted to the presentation of the topic as outlined in this manual. A case can sometimes be used to stimulate or augment the discussion period that follows the presentation. This could be one way of expanding the basic materials into an advanced course on the subject.

THE CASE METHOD OF STUDY

The case method is a teaching device that helps the student learn through the processes of reasoning and decision making. Other popular teaching techniques stress learning or memorizing other people's knowledge on a given subject. The case method stresses his thinking abilities rather than his memory; it is dynamic, not passive.

What is a case? It is a description of an actual or true-to-life business situation. It is a statement of facts, opinions, and judgments—in short, a problem having no pat answer but lending itself to discussion and analysis.

The case method is particularly helpful in teaching businessmen because it uses real, practical problems rather than abstract situations. Properly used, it involves the participants in a way that will hold their interest and stimulate their thinking. It is particularly useful in developing in the individual (1) the ability to make decisions on administrative tasks (without incurring the penalties of a wrong decision on the job); and (2) the habit of thinking analytically and constructively.

The case method also highlights the value of group discussion and analysis. Each member of the group contributes from his unique experience, and each participant gains from the others. The group's knowledge and experience will exceed that of any one participant—including the instructor.

The following checklist can serve as a procedure for conducting case study and analysis:

Suggestions for Case Study

1. Read the case carefully for general content.

2. Arrange the facts of the case in order of importance.

3. Recognize and define the major problem(s) needing solution.

4. Analyze the problems and their relative importance.

5. Search for and establish alternative solutions.

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6. Select the most desirable of the appropriate solutions.

7. Analyze your probable solutions; set up the pros and cons, giving value to each.

8. State your choice, decision, or final conclusion—and be prepared to defend it.

9. Set forth the plan or plans you would follow to implement the decision.

FROST'S CLOTHING STORE*

Henry Frost had operated a men's clothing store for a number of years, and in 1951 leased a store building just off the main shopping street of Abington. The old store had been operated in this location since the business was founded in 1926. The 1951 lease was for 10 years for $1,150 per month with an option to renew for another 10-year period at the same rate. The building was owned by an estate. The estate, which was handled by a bank as trustee, had owned the property since 1920. The more than 30 heirs to the estate would not consider selling the property.

Before signing the lease, Mr. Frost wrote to the trustee of the estate requesting that necessary building improvements be made by the landlord. At that time the trustee refused to do anything to improve the building and Mr. Frost, after signing the lease, improved the front and interior of the building at a cost of $21,000.

Mr. Frost began to reconsider the renewal of his lease in 1959. He asked several real estate firms to look for a good location for him in and around the community. By midsummer 1960, they found several possible locations. The first was located in an older neighborhood which had developed into a sizable shopping area. One of the older buildings on a major thoroughfare leading from the downtown to the higher income suburbs had been torn down and a women's apparel store was moving into the corner area. The space between this women's apparel store and a medical arts building was available to Mr. Frost. The rent would be $400 per month for a space approximately half as large as he now occupied. Mr. Frost turned down this location because there was not sufficient parking space in the area for the present businesses and no space for additional off-street parking.

Mr. Frost was offered the opportunity to go into a shopping center to be built on the outskirts of the community. The shopping center planned to open in the fall of 1961, but the actual building had not begun. The landlord would not give Mr. Frost a guarantee that he would be open before February 1962. The rent for a store of 2,500 square feet or nearly three-fourths the size of his present building, would be $600 per month. This would include air conditioning and fixtures in accordance with Mr. Frost's wishes.

Mr. Frost considered keeping his present location and opening a store in the shopping center. His present lease specifically stated that he could not open another store within 50 miles of the location of the downtown store. Mr Frost asked the trustee for a release from this clause of the contract, but the trustee refused. Mr. Frost turned down the location in the shopping center because his lease expired August 1, 1961, and he could not wait for the completion of the shopping center. He reasoned that he would not have any business from August until February and he could not move into temporary quarters and move again. The trustee would not give a short-term extension of the lease.

The third location was one block from the present location on the same side of the street. It would be similar to the present location. The building had had three tenants in the past 8 years. Two had gone bankrupt and the third had just gone out of business and wanted to sublease. The owner of the building was anxious for Mr. Frost to take the building for the remainder of the lease. In addition, he would give Mr. Frost a 5-year lease with an option for 5 years more at the same rental. The rent would be 4 percent of annual gross sales with a minimum guarantee of $8,000 per year. The building was about 300 square feet larger than Mr. Frost's present location, but was narrower and longer.

After talking with one of the former owners of a business which had gone bankrupt in this location, Mr. Frost decided to remain in his present location. He reasoned that customers knew

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*Adapted from Harry A. Lipson, *Ten Alabama Small Retail Cases.* University of Alabama, 1961. (Prepared under the Management Research Grant program of the Small Business Administration.)

where he was located, and he did not need a larger building with a rent almost as large as the one he was now paying. The former owner pointed out that customers were generally on their way to other places rather than to the block on which the potential sublease building was located, and that he had noticed that customers came to this store "only as the store of last resort." Mr. Frost concluded that this was not a good location for him.

In January 1961, Mr. Frost made an analysis of his expenses which showed his rent was about 5.9 percent of his net sales for the past 5 years. This showed his rent was running about 2.75 percent above the national average for comparable operations.

Mr. Frost found figures for the last 3 years for 43 Southeastern stores which showed their expenses were similar to the national pattern. In analyzing his figures, Mr. Frost found that his sales volume had not increased as much as other stores, but his salaries and rent were higher. He thought that his advertising costs had been heavy, but this analysis showed that he was spending less than the average. Mr. Frost knew that his rent was about 3 percent too high for his sales, and he considered that he should be spending less for advertising because of the expense of his rent.

Mr. Frost wrote to a professional consultant asking for information and suggestions. The letter from the consultant confirmed his opinion that the present rent was approximately 2.75 percent too high. The letter said that he should try to sign a lease for 5 years without the clause restricting him from opening branch stores in the city.

Mr. Frost tried to get the landlord to give him a 5-year lease with the right to open other stores in the city. The trustee refused.

After careful consideration, he realized that he had not made any changes in the layout, brands, or merchandising pattern of his store in 10 years.

Mr. Frost offered the landlord $900 a month rent. He sent the landlord the information that he was paying 2.75 percent more rent than he should be paying for his type of business. When he did not hear from the landlord, he called the bank to say that he was going to begin a going-out-of-business sale and accept a job traveling for one of his men's clothing lines when his lease expired. Three days later he received a lease offering him another 10 years at $900 per month, but it included the restrictive clause that he could not open a store within 50 miles. Mr. Frost returned the lease unsigned with the statement that he would not sign the lease with the restrictive clause in it. The lease was returned to him within a week with the restrictive clause removed. Mr. Frost signed a new lease for 10 years at $900 per month.

Later, Mr. Frost made another analysis of his expenses. He found that his rent was running at the national average of about 3 percent of net sales.

Mr. Frost found that he had improved his operation considerably and was now in position to expand. He wondered whether he should try to continue to expand in the present location or open an additional store somewhere in the area.

Suggested Questions

1. Did Mr. Frost do the right thing in not taking one of the leases offered him in 1961?
2. Was Mr. Frost correct in thinking that a high-rent store should have a low advertising expense?
3. Would Mr. Frost have made the right choice if the landlord had refused to meet his terms after he had planned a going-out-of-business sale?
4. Suppose Mr. Frost's going-out-of-business sale had started when the landlord decided to agree to the new lease. Would this have made a difference in your thinking about whether or not Mr. Frost should close the store?

REGAN-HALL, INC.*

Mr. Wilbur Regan, president of Regan-Hall, Inc., a women's apparel store, received a letter and report from the Morgan Realty Company, which planned to build a large shopping center on National Boulevard in Satellite City. The letter called Mr. Regan's attention to the conclusions of the report:

1. The population has increased in the city limits from 16,437 to 51,457 in the past 10 years. There are many in Satellite City who predict the population will be 100,000 within the next 3 years.
2. The industrial development of Satellite City is conspicuous and spectacular.
3. Approximately 2,000 residential lots are in the process of subdivision around the town.
4. The Morgan property is along the new bypass (National Boulevard) running north and south and located at an important east-west road.
5. The downtown section of Satellite City has not changed in more than 50 years. At present, one cannot buy a store building in the downtown section.
6. The effort to keep more business in Satellite City stems from the widespread feeling that the town loses too much business to other towns.
7. A relocation of the shopping area of Satellite City appears to be in the making.
8. A newly paved road runs from the downtown section to National Boulevard. It is approximately a half mile via this road from the court house to National Boulevard and the area of the planned shopping centers.
9. A new building, costing about $1 million, to house the local newspaper is located on National Boulevard.
10. A new supermarket, a $1 million expansion of the Satellite City Hospital, and new doctors' offices and clinics are located at an important intersection not far from National Boulevard.
11. A new 40-acre redevelopment project, changing substandard housing into residential and light commercial property, is planned adjoining National Boulevard.
12. Three large apartment groups are located near National Boulevard. These comprise approximately 750 units of medium- and low-rent housing.
13. A recently completed city high school for 1,000 students costing $1.5 million; a new county high school costing $2 million for 1,000 students; and a new city elementary school for 1,100 students are all located near National Boulevard.
14. The relatively high per capita income, the growth of population, the estimates of increasing retail sales and potential sales—all indicate that the Morgan property will be an excellent location for the concerns that have confidence in the future development of Satellite City.

Mr. Regan studied the maps and became excited about the growth of the city and its growing payrolls. He took the report home with him and studied in detail the story of the industrial growth, the population and income figures, the retail trade situation in the town, the financial and trade indices, and the information concerning taxes, labor supply, transportation, and communication given in the report. For two days Mr. Regan studied the materials and considered the wonderful future his firm could have with a store located in Satellite City.

Regan called in his partner, Fred Hall, and they talked about their past activities. Hall and Regan purchased their present business in 1957 from the former owners, who had founded it. The store, in the town of Calaga, operated under the name "Martha's," Regan-Hall, Inc., was set up as a private corporation to purchase "Martha's." The business did well because the community prospered, and because the new management worked long hours to bring patronage to the store.

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In 1959 Regan-Hall opened a second store a block away from their main store. This occurred when the owner of the building lost his tenant, a shoe store, and offered the building to Hall. Regan-Hall opened a women's sportswear store called "The Style Shop." This store had also been very successful. Regan ran "Martha's," and Hall ran "The Style Shop."

After studying the report and visiting the site, Hall told Regan that, despite the risks involved, he liked the possibility of opening a store in Satellite City, which was expanding. They both wanted to open a store in the planned shopping center, but did not know how they could operate a store located in another community. They figured that one partner might run "Martha's" and "The Style Shop," and the other partner might move to Satellite City and operate the new store. Both men had already been working days and nights and Sundays trying to build the business and supervise the stores. They believed that good floor supervision had been the main factor in the growth of their business.

Regan said to Hall, "We can go into this new venture and probably add an additional $250,000 volume in several years to our present sales of $420,000. At present we are each drawing $14,000 a year from the business and we are reinvesting profits of around $25,000 a year. You were in bed 4 weeks last summer with high blood pressure. I already have an ulcer. Is it worth it?"

Hall replied, "I've told you all along that we needed to get a young man to train to run one of the stores."

Regan, raising his voice, exploded, "Why, if we did, the man would just go out and open his own store. Where would that leave us? Let's get a trained professional manager from "Sears" or "Penney's" or "Belk's" and pay him $15,000 a year to run the store for us."

After a week of this type of discussion, which had really been going on since they opened the second store, Regan and Hall notified Morgan that they would not locate in Satellite City at that time.

Regan and Hall were worried about the fact that only one shopping center had actually been built in Satellite City although they had been contacted by six different groups planning to build. They also were confused by the apparent contradiction that general merchandise and apparel sales had increased so little in the face of the large growth of retail sales.

During the years Regan and Hall also had been offered the chance to open stores in several new shopping centers which were being planned in their own community. Two were being planned in August 1963.

In 1962 and again in 1963 both Regan and Hall tried to locate potential managers for their store. They found several possible candidates for the job through New York executive placement firms, but none of the people they wanted were willing to live in small towns

Regan-Hall, Inc., did not sign a lease for a store in Satellite City because they could not locate the necessary executive to run the store. They did not enter the shopping centers planned in their own town because they did not feel their business would benefit from additional locations in the community at that time.

Mr. Regan recently read in the paper that the population of Satellite City was estimated to be 71,880. The report showed an increase of more than 50,000 new residents since the 1950 census, which placed Sattelite City's population at 16,406. Mr. Regan read the report to Mr. Hall. They both regretted that they had been unable to open a store in Satellite City.

Suggested Questions

1. Should Regan-Hall open a store in Satellite City?
2. Is it easier and more desirable for them to open another store in their own town?
3. Why didn't other retailers open in Satellite City?
4. How can a small retailer located in one community open a store in another community?
5. Comment on other aspects of this case.

THE INCUBATOR

A How To Do It

Section

Experience has shown that people achieve maximum benefit from a conference, staff meeting, or training session when a period of incubation follows the implantation of the new idea, new information, or "new slant."

This is a do-it-yourself section that will allow the participants to try out or apply the ideas and information gained from this session.

This material may be reproduced locally for distribution to course participants.

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SUGGESTED INCUBATOR ASSIGNMENT

Exercises on Location and Layout

1. What are three important considerations in locating a site?

2. Give advantages and disadvantages of locating in:

   The home town
   An established shopping center
   A central shopping district
   A wayside shopping area

3. What major considerations would influence your choice of a store in a central shopping district?

   Candy store
   Furniture store
   Variety store
   Record store

4. How would you arrive at a layout for your small retail store:

   Hardware
   Grocery
   Drug

5. What are major considerations in preparing a layout for a radio-TV sales-and-service establishment?

6. Why would you consider locating a men's clothing store next to a department store but not next to a bakery?

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